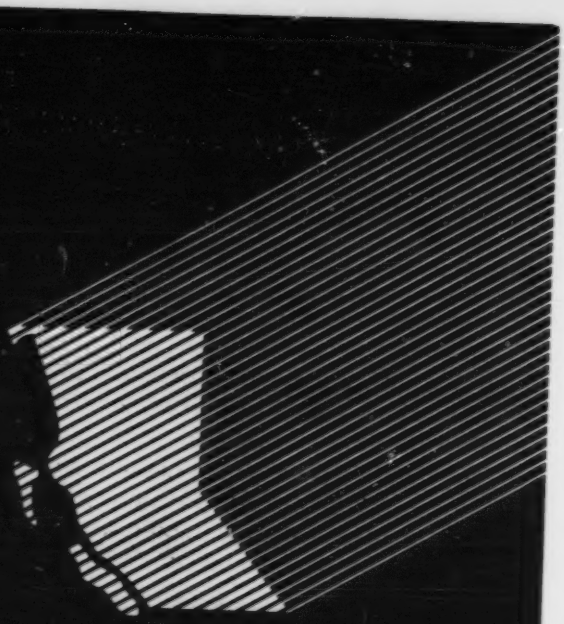


Budget 1991

BUDGET-IN-BRIEF

Province of British Columbia
Ministry of Finance and Corporate Relations
Honourable John Jansen, Minister

Minister's Message

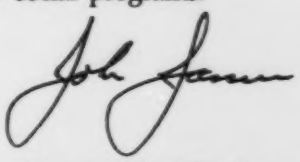
It was an honour for me to be able to present a budget for 1991/92 that continues to build on the government's achievements of the past five years.

Despite a slowing economy, and despite a shift in federal responsibilities onto the provinces, we have still managed to increase spending by about $1,000 per household to meet the needs in the areas of health care, education and social services. We have responded to this economic downturn without succumbing to the temptation to run a massive deficit.

The $16.55 billion budget projects a deficit this year of $395 million. It's the first deficit in three years and we are in a good position to manage it effectively. British Columbians can take comfort in the knowledge that the deficit is small in relation to what's happening in other provinces and at the federal level.

At the same time, we had to make the difficult decision to raise some taxes. The taxes were chosen to be fair, recognizing that services people demand have to be paid for.

Like you, we would prefer to balance our books; however, a responsible government does not balance its budget by making wholesale cuts in services to people. We are committed to maintaining our key social programs.



Honourable John Jansen
Minister

A Record of Achievement

- More than 200,000 jobs have been created over the past five years.
- The Housing Action Plan has been creating social housing units at the rate of 2,000 per year since it was introduced two years ago.
- Also over the past two years, 6,500 new and affordable rental units have been built or are under construction through the Rental Supply Program.
- Spending on public school education has almost doubled over the past five years.
- Spending on health care has risen by 60 per cent in five years. Our emphasis reflects the concept of community-based care.
- The government has protected the British Columbia taxpayer by keeping the tax burden the second lowest in Canada.
- British Columbia's debt per person is the lowest of any province.

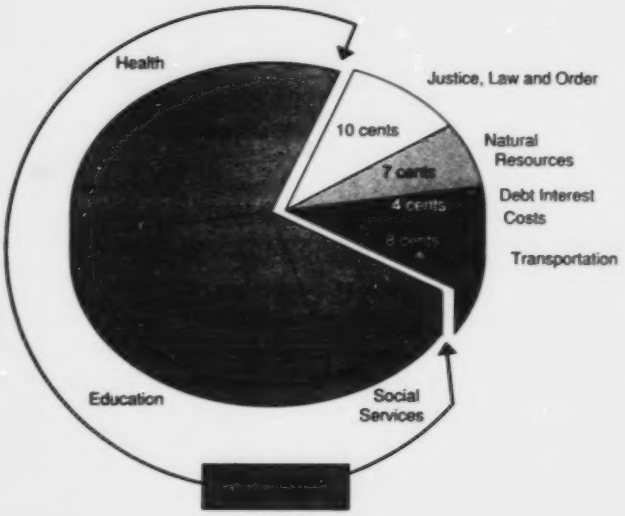
Initiatives this Year

- Funding for health, education and social services is being increased by $1.2 billion for a total this year of $11.9 billion or almost $1,000 per household.
- Overall spending on health care will increase this year by $591 million, to a total of $5.4 billion, a third of all government spending.
- Overall spending on schools will rise by $232 million this year, to a total of $3.3 billion.

- The province's three public universities will receive funding of $428 million. The 15 public colleges and five institutes will receive $374 million.

- To ease the difficulties being suffered by British Columbians as a result of the economic downturn, the budget of the Ministry of Social Services and Housing is being increased by $273 million, to a total of almost $2 billion this year.

Where your tax dollar is being spent in 1991/92



- The budget commits $12.1 million in new money to increase child day care subsidies.

- The provincial government is working with school boards around the province to develop a school lunch program.

- The budget commits $4 million to programs that deal with family violence.

- Funding is committed for the first year of the five-year $1.4 billion Forest Renewal Plan.

- The government has begun studying the establishment of a degree-granting institution in the upper Fraser Valley.

- The Medical Services Plan will be expanded this year to include a travel allowance system to help patients who have to obtain specialized treatment away from home.

Fighting the Recession

- Capital spending on health, education, justice and other social service areas, with a total value of $1.3 billion, will be undertaken throughout the province in the coming year, creating jobs and business opportunities for British Columbians. That's a 50 per cent increase over 1990/91.

- The building program in advanced education totals $264 million and includes funding for a start on the new University of Northern British Columbia in Prince George.

- Hospitals and other health-related capital projects will be funded with $285 million.

- Public school construction will receive $650 million.

- Justice-related capital projects — such as new courthouses and detention centres — will receive $70 million.

Paying Our Way

- The budget introduces a number of measures that will generate $247 million a year in new revenues.

- Effective January 1, 1991, the rate of corporate income tax is being increased one point to 15 per cent. The small business rate stays unchanged at nine per cent. The corporate income tax rate is the second lowest in Canada.

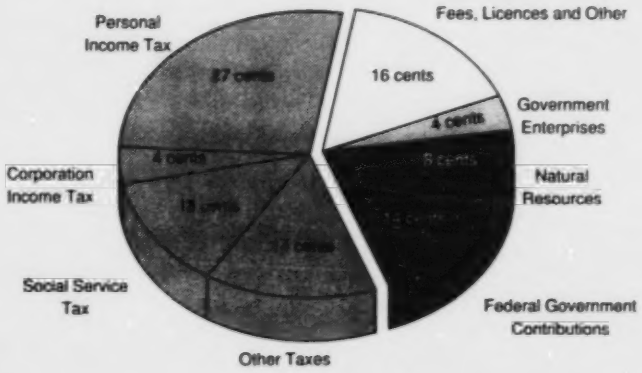
- A temporary deficit-reducing personal income surtax is being applied to high income earners. This surtax will be eliminated when the deficit is paid off. For a family, the surtax kicks in at an annual income of $93,300.

- Effective May 22, the tobacco tax is being increased 34 cents per package of 25 cigarettes. The tax rate on loose tobacco will be increased by one cent per gram.

- Medical Services Plan premiums will be increased effective July 1, 1991, to ensure that funds are available to provide quality care. MSP premiums will rise by $4 a month for singles, $7 a month for couples, and $8 a month for families. The MSP premium assistance program will continue to provide assistance to those in need.

- Rates of various fines, fees and licences are being increased to keep in line with program costs.

Sources of Government's Revenue in 1991/92



Keeping the Tax Burden Down

- The phasing out of the Renter's Tax Reduction is being delayed for another year.

- As promised in last year's budget, the Supplemental Homeowner Grant is being increased.

- The tax rate on rural residential and business properties is being reduced by 24 per cent to keep total revenue the same as last year in the face of rising assessments.

Improving Efficiency

Five initiatives are being introduced this year to improve government cost efficiency and service to the public.

- WasteLine B.C. is a toll-free telephone link that will allow British Columbians to dial into their government with ideas on how to cut waste and improve service.

- New ways of managing government activity to cut the red tape that hampers the efficient delivery of government services will be implemented.

- The Ministry of Finance and Corporate Relations will undertake *value-for-money* management reviews and audits to ensure that public funds are used wisely.

- Funds will be earmarked to allow government ministries to invest in efficiency projects that reduce operating costs and yield measurable results.

- The program under which the private sector is encouraged to offer products and services that will improve government efficiency and reduce costs will be extended.

Sound Fiscal Management

The budget is the first one developed under the controls of the *Taxpayer Protection Act*. The act requires that:

- the budget be balanced over five years;
- government spending be limited to growth in the economy;
- public sector wage increases be limited; and
- government debt be reduced.

The first balanced budget plan has been tabled as required by the *Taxpayer Protection Act*. It provides annual forecasts for the next five years of government revenues, spending and surpluses or deficits. The act requires the government to table a report on progress measured from 1991 every year with the budget.

As well, a debt reduction plan was tabled by the government, meeting another requirement of the *Taxpayer Protection Act*.

For more information contact:

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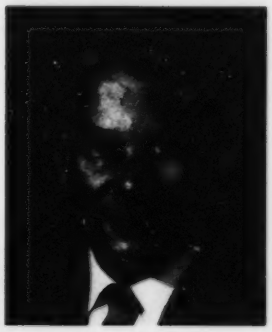
Recycled Paper

Budget 1991

Province of British Columbia
Ministry of Finance and Corporate Relations
Honourable John Jansen, Minister

Budget 1991

Delivered in the Legislative Assembly
Tuesday, May 21, 1991
by the
Honourable John Jansen
Minister of Finance and Corporate Relations



"We have a better British Columbia than ever before, with better health care, better education, better people programs."

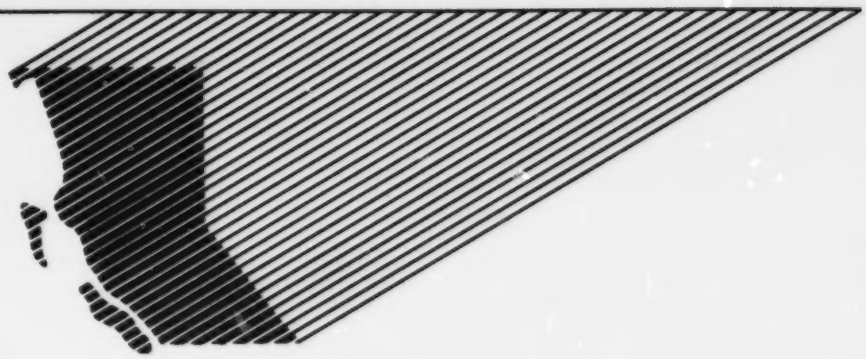
British Columbia Cataloguing in Publication Data

British Columbia.
Budget (1984)
Budget. — 1984–

Annual.
Additional title: Province of British Columbia budget.
Delivered in the Legislative Assembly by the Minister of Finance, 1984-1986; by the Minister of Finance and Corporate Relations, 1987–
Continues: British Columbia. British Columbia budget (1983) ISSN 0823-2008
ISSN 0825-0650 = Province of British Columbia budget (1984)

1. Budget — British Columbia — Periodicals. 2. British Columbia — Appropriations and expenditures — Periodicals. I. British Columbia. Ministry of Finance. II. British Columbia. Ministry of Finance and Corporate Relations. III. Title: Province of British Columbia budget.

HJ13.B732 354.7110072'252
Rev. Mar. 1987



Budget 1991

1991 BRITISH COLUMBIA BUDGET HIGHLIGHTS

Fiscal Highlights

- Revenue growth weak due to economic slowdown.
- Expenditure growth limited to growth in economy.
- General Fund deficit of $395 million — but budget balanced over 5 years.
- Debt burden lower than in any other province.

Programs for People

- Health, education and social services spending up almost $1,000 per household.
- More funding for child day care.
- Additional funding to reduce family violence, including elder abuse.
- Education funding totals $3.3 billion in 1991/92.
- $1.4 billion committed to 5-year Forest Renewal Plan.

Revenue Measures

- Supplemental Home Owner Grant increased.
- General corporate income tax rate increased — small business rate unchanged.
- Temporary personal income surtax introduced for high-income taxpayers.
- Tobacco taxes increased.
- MSP premiums increased.
- Renter's Tax Reduction continues unchanged.

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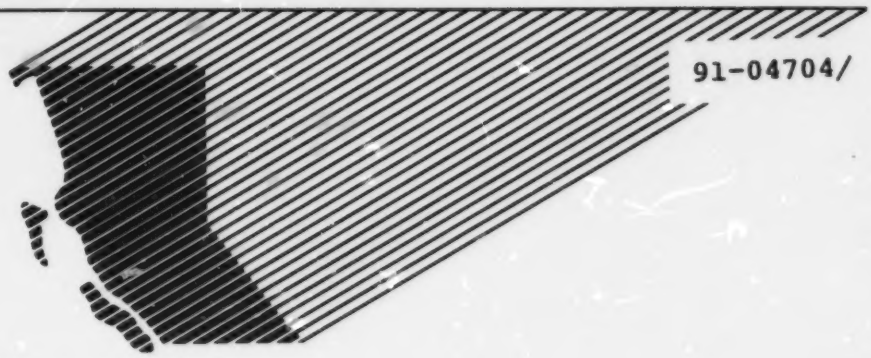

Budget 1991

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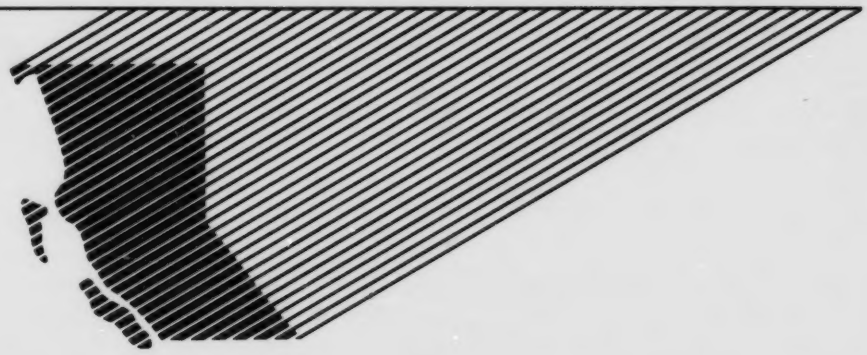


Budget 1991

BUDGET SPEECH

Introduction

Mr. Speaker, it's my honour to present the 1991 provincial budget to the Legislature, and to the people of British Columbia.

Our outstanding fiscal record is something we can all feel proud of — particularly my colleague, the Member for Saanich and the Islands, who deserves much of the credit.

His management of the province's finances was outstanding. Thanks to him, British Columbia's message of fiscal responsibility is being heard across Canada.

It is a message that deserves repeating.

Mr. Speaker, this budget is more than a recital of cold numbers in the province's ledger books.

This budget will demonstrate our commitment to deliver caring, compassionate and fair government — government that helps those in need. We can do this despite a national recession, Mr. Speaker, because this government delivers the best fiscal management in Canada.

In preparing this budget, we faced difficult choices. North America is in recession and unemployment has risen. People's needs increase as government revenues decline. There is a temptation to borrow against the future. A temptation that some governments have failed to resist.

Furthermore, Mr. Speaker, we are also seeing the federal government back away from its commitments to social programs. This is the inevitable consequence of fiscal irresponsibility — of borrowing against the future.

These are not easy times, Mr. Speaker. We had tough decisions to make, and we made them. This budget is fair. This budget is honest.

This budget renews our commitment to invest in people.

But we will not leave today's bills to tomorrow's taxpayers.

Our debt per person is the lowest of any government in Canada. And it's going to stay that way. We will continue to make good on our promise. The people's money will be managed responsibly.

A Made-in-B.C. Budget

Mr. Speaker, this budget is made in British Columbia, by British Columbians, for British Columbians. It serves no hidden agenda or outside interests. We have no political ties with other jurisdictions. We are a British Columbia government.

We have avoided the spending and debt spiral adopted by others. We will not mortgage the future to follow some bankrupt ideology.

We can be proud of our way of doing things. We can be proud of our accomplishments and excited about the future. This budget paves the way with four key commitments:

- We will protect today's taxpayers with taxes among the lowest in Canada.
- We will protect tomorrow's taxpayers by reducing the burden of debt.
- We will protect services to people in spite of weaker revenues.
- We will lay the foundation for a prosperous future. A future with good jobs, stable jobs, lasting jobs, for British Columbians.

Mr. Speaker, this is a free enterprise government. We understand that economic success is driven by business in

all regions of British Columbia. Government's job is to set the stage — not interfere. We will continue to provide a competitive business environment for the 1990s. This means:

Government sets the stage

- low taxes
- cutting red tape
- making investments in infrastructure
- providing an educated workforce
- delivering efficient and effective services.

This government has provided a good base for business to build on.

This budget continues this commitment.

Economic Performance and Outlook

Mr. Speaker, thanks to the province's strong economic performance in recent years — and this government's excellent fiscal management — we are in good shape.

B.C. outperforms Canada

When we look at developments across Canada, we can see that British Columbia is weathering the current economic storm much better than most other provinces. 24,000 more people were working in British Columbia this April than in April 1990. In stark comparison, consider, Mr. Speaker, that 332,000 jobs disappeared in the rest of Canada over this period.

However, after several years of strong growth, the British Columbia economy did slow during 1990.

Weakening international commodity markets, high interest rates, the high value of the Canadian dollar and slowing growth in the North American economy have dampened exports. Lower exports mean rising unemployment and lower incomes.

It's a message that the Bank of Canada must heed, Mr. Speaker.

Fortunately, British Columbia has diversified its export markets, making the current economic downturn far less severe than the recession of the early 1980s.

British Columbia will rebound. Our economic prospects remain bright as we continue to diversify our economy and strengthen our links with the Pacific Rim.

Mr. Speaker, while we are confident about, and planning for the longer term, this government is working to solve problems in the short term.

Building for the future

We're addressing today's needs while building for the future.

The Job Protection Commission is acting to preserve existing vital jobs in communities throughout British Columbia.

We are creating new jobs across the province through government capital investment.

. . . creating jobs now

In Prince George, for example, construction of the University of Northern British Columbia will provide greater access to education, create jobs and increase wealth in the region. In Abbotsford, the Rick Hansen Secondary School is being built at a cost of $23 million.

Powell River is getting a new hospital; Dawson Creek and Fort St. John will have new health centres. A new multi-level care facility is being built in Port Alberni, and planning is underway for another in Chilliwack.

And Kelowna, Delta and Masset will get new courthouses.

. . . serving people tomorrow

Mr. Speaker, the government is increasing capital expenditures on health, education, justice and other social service areas by almost 50 per cent over 1990/91. Approved social capital expenditures are $1.3 billion this year.

Mr. Speaker, the economy weakened but we were prepared. By making investments in people, we are helping

those hurt by the economic slowdown. We are able to do this, even though the federal government is shifting its problems onto our backs.

Federal Problems Shifted to Provinces

This recession is testing provincial governments across Canada. The federal government is making things worse by offloading the responsibility for funding social programs. It is cutting the transfers that help provinces fund health, education and social assistance.

Ottawa's cuts threaten social programs

Ottawa's actions threaten our basic social fabric. These are core programs, not expendable luxuries.

Some provinces have resorted to harsh measures, in order to cope:

- Newfoundland has eliminated 2,500 public service jobs and frozen public sector wages for a year.
- New Brunswick has frozen public sector salaries for a year and is expected to eliminate 225 public sector jobs.
- Manitoba expects to cut over 900 positions this year.
- Alberta plans to cut more than 800 jobs from its public payroll, and plans to spend less than last year.

Ontario deficit . . . a fiscal horror story

Then there is Ontario, which took the "spend now, pay later" approach. We are shocked by Ontario's massive deficit. Almost $10 billion, Mr. Speaker. It is a fiscal horror story. It amounts to borrowing over $1,000 for every woman, man and child in Ontario. What's even worse, Mr. Speaker, is that spending will continue to spiral, resulting in a doubling of the debt in four years.

It will hurt us, even here in British Columbia, as it drives up interest rates.

Consider, too, the monster made in Ottawa. A legacy of debt allowed to grow unchecked. Deficits piled on top of deficits on top of deficits.

Federal deficits and debt . . . a vicious circle

Excessive federal spending and borrowing have damaged our economy. They have fuelled high interest rates that kept the Canadian dollar high, harming our exporters and helping to tip us into the current recession.

Regrettably, the cycle continues.

In 1991/92, interest payments alone will eat up more than one-third of federal revenues. Federal debt will reach **$419 billion** by the end of this year.

That translates to a debt of almost $16,000 for every child and adult in Canada — more than $62,000 for a family of four.

There is just one word for this, Mr. Speaker. Frightening. Very, very frightening.

Confederation Crossroads: Maintaining Canada's Social Fabric

B.C. wants a strong, united Canada

This cycle of borrowing and debt is a major reason why many are demanding a re-examination of Canadian federalism.

Mr. Speaker, British Columbians want a strong, united Canada. But, they also want change.

They want more influence over decisions that affect them. They want government decision-making to be closer to the people.

Taxpayers are fed up with paying more and more and getting less and less in return.

They want the public sector to be more accountable, with responsibilities clearly assigned to each level of government. Today the people see overlap, duplication and financial crisis.

. . . but changes are needed

Mr. Speaker, this country can be turned around and made to work better than ever before. The Government of British Columbia will lead the way in finding solutions.

Canadians benefit from one of the best health care systems in the world. We want our national health care system protected. We don't want to see a hodge-podge of health care systems and coverage across the country. Universal access *is* important. National standards *are* important. Our health care system is a living symbol of what Canada is all about.

National standards important

Mr. Speaker, Canada is a compassionate, caring society. Let us all work together to keep it that way.

To maintain Canada's social programs, we must deal with the country's fiscal problem. All levels of government must re-examine their spending responsibilities and revenue-raising capabilities. We must define and separate the roles of federal and provincial governments. Taxpayers must know which level of government is responsible for specific spending and taxing decisions.

If governments don't work together to reduce inefficiency, duplication and overlap — our caring society will be in danger.

Efficient Government

Mr. Speaker, some would say that we can't afford to maintain the quality and extent of our programs.

We disagree. We believe it can be done by making government more efficient.

That is our goal, Mr. Speaker. It was reflected in our Premier's decision to reduce the size of government by three ministries.

Within the provincial government, we are exploring ways of doing things more cost-effectively. Our goal is to provide more value for the taxpayers' dollar.

Taxpayers want value for money

We have called on public servants to find new and better ways of meeting the public's needs. It's working. Our

employees are taking up the challenge. I offer my congratulations.

Mr. Speaker, suggestions offered by employees have saved the people of British Columbia $5 million over the last four years.

I am also pleased to announce several new initiatives.

- Later this year we will introduce a telephone service called "WasteLine B.C." This phone line will accept people's comments on government operations, and suggestions on how we could do things more efficiently.
- Our second innovation is the establishment of new ways of managing government activity. This will improve the delivery and cost effectiveness of government services. We'll set performance targets and make managers more accountable for the results. By measuring outputs as well as inputs, we will achieve a better return on the tax dollar.
- Third, we will undertake within the Ministry of Finance and Corporate Relations "value for money" management reviews and audits. This function will ensure that public funds are used wisely and accountably. After all, efficiency is one of the yardsticks by which the public service should be measured.

Government delivers value for money

- Our fourth innovation is the earmarking of funds to allow ministries to invest in efficiency projects that will reduce operating costs and yield measurable improvements.
- And finally, Mr. Speaker, we will extend the program under which the private sector is encouraged to offer products and services that will improve government efficiency and reduce costs. This will build on the success of existing government purchasing programs.

Taken together, these initiatives will give British Columbia citizens better value for each tax dollar they send to Victoria.

Our Fiscal Commitment

Mr. Speaker, the efficiency plan I have just outlined demonstrates the government's commitment to providing quality services, at a cost taxpayers can afford.

In this budget, we maintain our commitment to fiscal responsibility. We maintain our commitment to social programs — despite transfer cuts announced in the federal budget. Cuts that will cost us another $2 billion by 1994/95.

Commitment to quality services

To afford quality programs for people, now and in the future, we have set in place a new fiscal strategy.

Mr. Speaker, this government knows that prosperity does not come from government spending, but from the dynamic activity of the private sector across the province — responsible fiscal management by government allows this to happen.

Thus, there are four key elements to our fiscal strategy:

- the budget will be balanced over five years;
- government spending will be limited to growth in the economy;
- public sector wage increases will reflect ability to pay; and
- government debt will be reduced.

. . . and good financial management

Mr. Speaker, let me explain each of these commitments.

A BALANCED BUDGET COMMITMENT

Families have to balance their budgets and carefully plan their financial futures.

Governments must do the same.

Tax revenues swing with the economic cycle while spending pressures continue to grow. The plan that we have adopted recognizes this. Deficits in years of slow economic growth are offset by surpluses in years of stronger economic performance.

Today, I have tabled the first five-year Balanced Budget Plan as required under the *Taxpayer Protection Act.*

Budget will be balanced

Government spending and revenues will be balanced over five years.

GOVERNMENT SPENDING LIMITED TO GROWTH IN ECONOMY

Mr. Speaker, a wise family only spends what it can afford. That same principle applies to multi-billion-dollar provincial budgets.

One way to apply this principle to government is to set limits on spending. This is the option we've chosen. Who, Mr. Speaker, would argue that we can spend without limit?

Government spending limited

The *Taxpayer Protection Act* limits growth in government spending to 8.1 per cent in 1991/92. This is the average rate of growth in the economy over the last five years. This will provide discipline and control over spending. Spending will also grow at a more steady rate, minimizing inefficient stops and starts in government programs that result from a single-year focus.

HOLDING THE LINE ON PUBLIC SECTOR WAGE INCREASES

Mr. Speaker, this government respects the taxpayers' ability to pay. To do so, we must control the costs of government.

Wages for public employees are the largest single cost of government. About 53 per cent of the provincial budget is consumed by salaries of direct government employees and indirect government workers, such as teachers and health care professionals.

Even though job security is greater in the public sector, 1990 marked the fifth consecutive year in which public sector wage settlements exceeded settlements in the private sector.

Fair wage settlements for public employees . . . and taxpayers

Recent settlements between school boards and teachers have resulted in wage increases in the 6.5 to 7.5 per cent range.

Mr. Speaker, in this slow economy, we could have followed the path of many other provinces and laid off government workers. We could have frozen wages or eliminated programs.

None of these options was acceptable.

Instead we chose to ensure that collective bargaining would continue — but in a fair way that would balance the interests of workers with taxpayers' ability to pay.

We did this, Mr. Speaker, through the *Compensation Fairness Act.*

Our commitment to pay equity continues, Mr. Speaker. We are implementing this program in consultation with our employees.

DEBT REDUCTION PLAN

Mr. Speaker, this government will not leave a stack of unpaid bills for our children. We promised to reduce the burden of government debt, and we've made good on that promise.

Debt burden lowest in B.C.

Since 1987, we have reduced the burden of debt relative to our provincial economy by 17 per cent. Mr. Speaker, provincial debt per person is lower in British Columbia than in any other province — bar none, Mr. Speaker.

As well, interest costs to service the British Columbia debt account for only 4 cents of each revenue dollar the provincial government receives, compared to 34 cents of every dollar Ottawa collects.

So today, in keeping with the *Taxpayer Protection Act,* I have tabled the first Debt Reduction Plan, which appears in the Budget document.

ACCOUNTING FOR THE RESULTS

Government is accountable

Mr. Speaker, we have informed the public of our budgetary targets for the next five years. We will report on our progress next year. British Columbians will be able to measure the government's performance against these targets.

We're proud of our stewardship of public finances and, we're proud to present a frank and honest accounting of what we're doing.

Fiscal Review and Outlook

Mr. Speaker, I will now review the province's financial results for 1990/91 and our revenue and expenditure plan for 1991/92. I will then announce a series of revenue measures made necessary by our fiscal situation.

REVIEW OF 1990/91

Despite spending pressures caused by the slowing economy, we were able to bring spending in below budget last year. We did this with firm control of discretionary spending.

1990/91 revenue lower . . . but spending below budget

However, the economic slowdown affected revenue. Total provincial revenues were $242 million lower than forecast in 1990/91.

Natural resource revenues, social service tax, corporate income tax and property purchase tax revenues were lower than expected. However, this was partly offset by stronger-than-expected personal income tax revenues.

The revenue shortfall was offset by an additional transfer from the Budget Stabilization Fund, bringing the total transfer for 1990/91 to $926 million. As a result, we were able to meet our budget targets last year.

1991/92 FISCAL PLAN

In 1991/92, General Fund revenue is projected to total $16.15 billion. This includes an $839 million transfer of the balance remaining in the Budget Stabilization Fund.

A caring government does not balance its budget by making wholesale cuts in services to people. We are committed to maintaining the integrity of key social programs. And we are committed to the spending growth limit of the *Taxpayer Protection Act*. We have made some tough decisions. We have increased expenditures, but we have kept them within the 8.1 per cent cap specified in the *Act*.

The estimate of General Fund expenditures for 1991/92 is $16.55 billion.

Spending on social programs up 11.1%

The largest increases are for health, education and social services. Spending on these three areas will rise 11.1 per cent, or almost $1,000 per household.

Mr. Speaker, while total government expenditures will grow 8.1 per cent this year, revenues will increase only 5.5 per cent.

As a result, in 1991/92 there will be a General Fund deficit of $395 million. This deficit is well below the huge shortfalls expected by the federal and many provincial governments. For example:

- The federal government's deficit equals 19 per cent of its spending.
- Ontario's deficit equals 18.4 per cent of its spending.
- British Columbia's deficit equals only 2.4 per cent of spending.

Mr. Speaker, while we would have preferred a balanced budget, British Columbians can take comfort in the relatively small size of the deficit. And they can take comfort in the fact that the budget will be balanced over five years under the Balanced Budget Plan.

Assisted by the province's strong credit standing, the deficit will be financed in public bond markets at relatively favourable interest rates. In fact, Mr. Speaker, in recent months, British Columbia has been able to issue bonds at interest rates below those offered on Ontario's debt.

The size of the province's direct government-purpose debt will rise to just under $6 billion in 1991/92. This equals 7 per cent of provincial gross domestic product. Provincial debt per person will be the lowest in Canada. By anyone's standards, that is a sign of good fiscal management.

REVENUE MEASURES

Revenue measures protect social programs

Mr. Speaker, I began this speech by committing this government to delivering services in a caring and compassionate way. This budget protects our basic social services in these times when they are most needed.

Mr. Speaker, I have explained how the recession and offloading by the federal government have reduced our revenues.

Mr. Speaker, I have re-affirmed our commitment not to burden future generations with an unmanageable debt.

We must be honest. This cannot be done without increasing revenues today.

I would like to freeze tax rates, but that is not possible in this time of need. This budget will not be balanced on the backs of those least able to afford it.

In these circumstances, we made the difficult decision to raise some taxes.

The revenue measures I am announcing today will generate an additional $209 million this fiscal year and $247 million over a full year.

Revenue measures balanced and fair

They have been carefully chosen. They are balanced. They are fair. They place the increased costs of our society on those who can most afford to pay.

First, the general **corporate income tax rate** is increased by one percentage point to 15 per cent effective January 1, 1991.

The small business rate remains unchanged at nine per cent.

Mr. Speaker, British Columbia's corporate tax rates remain competitive with other jurisdictions. The new tax rate will continue to be the second lowest rate of any of the provinces.

This revenue measure is expected to raise an additional $33 million this year.

Income surtax temporary

The second major revenue measure is a **temporary personal income surtax** that affects only high-income taxpayers. The tax will be used to reduce the budget deficit. In accordance with the Balanced Budget Plan, the legislation has a sunset clause. When the deficit is eliminated, the surtax will disappear.

The surtax rate is 10 per cent. It will become payable at an income level of just under $80,000 for single taxpayers, and at just above $93,000 for a family of four. A surtax credit will be given for each dependent, amounting to $50 in this and future years.

As an example of the effect of the surtax, a person earning $100,000 per year will pay a surtax of $100 to $300 annually, depending on family circumstances.

Revenue from the surtax is forecast at $32 million in a full year.

Mr. Speaker, the third new revenue measure affects the **tobacco tax**.

Our tobacco tax rate is the lowest of any province. Effective May 22, 1991, I will add 34 cents of tax per package of 25 cigarettes. This will bring our tobacco tax rate close to the Canadian average during the current year. The rate for loose tobacco will also be increased by one cent per gram. These measures will raise $75 million this year.

B.C. taxes still low

Even with these measures, our tax burden is low. For example, total provincial taxes on a family of four earning $45,000 are the second lowest among provinces.

Mr. Speaker, people have told us that they are willing to pay more to support our excellent health care system. I question whether our current Medical Services Plan premiums are the best way to raise revenue fairly. I will therefore review replacement revenue measures once we have in hand the report of the Royal Commission on Health Care and Costs.

MSP premiums to be reviewed

In the interim, to ensure that funds are available to provide quality care, we are increasing Medical Services Plan premiums, effective July 1. As an example, the rate for a family of four will rise by $8 per month. Overall, Medical Services Plan premium increases will generate an additional $58 million.

Mr. Speaker, many government services are fully or partially funded by charging user fees. These fees generally reflect

the cost of the service provided or the benefits received. It's only fair that those who receive the benefits help pay the costs.

Ministries review their fees on a regular basis, and increase them in line with program costs. We expect to raise an additional $16 million this year through increased fees and other charges.

Fairness has been our key concern in designing these revenue measures. No one is being asked to contribute more than their fair share to make up the revenue shortfall.

Mr. Speaker, along with these increases comes **tax relief**.

Tax relief for homeowners

Last year we made a commitment to homeowners to provide relief from the burden of residential school property taxes. We made good on that commitment by introducing the supplemental Home Owner Grant. This year, as promised, we are increasing the supplemental grant to 50 per cent of the amount by which school taxes exceed the maximum basic Home Owner Grant.

As a result, many homeowners will pay lower property taxes this year.

The provincial property tax, known as the rural area tax, required special attention this year. We have passed an Order-In-Council to reduce this tax rate by 24 per cent. This will keep the average rural tax burden at a level no higher than last year. Without this action, rural homeowners would have paid much higher taxes. Reductions will also apply to business property.

Finally, Mr. Speaker, renters will continue to be eligible in 1991 for the full Renter's Tax Reduction.

Maintaining Programs for People

Since taking office, this government has balanced social programs with good fiscal management. In applying this balanced approach, we have always leaned toward people.

We said in our first budget that we must invest in children, in families, in seniors.

We've delivered on this promise, and more.

Investing in people

- Spending on public school education has more than doubled since 1986/87.
- Spending on health care has increased nearly 60 per cent to $5.4 billion.

Mr. Speaker, this year is no different. We are taking a balanced, caring approach in our expenditure plan for 1991/92.

As I have said, all governments in Canada are facing difficult times. As the economy slows down, the demands on government increase. Rising unemployment puts great pressure on social services. Weak growth in revenue makes it difficult to pay for these additional services.

Mr. Speaker, we're asked to do more with less.

But in all our decisions, we have put people first.

Health, education and social programs remain our number one priority. We have seen to it that declining revenues do not affect these essential services for people.

Spending on health, education and social services will total $11.9 billion in 1991/92, a $1.2 billion increase from the previous fiscal year. Over 70 per cent of total government spending in 1991/92 will be in these three areas.

PROVIDING EFFECTIVE HEALTH CARE

Mr. Speaker, this government stands by its commitment to ensure quality health care for all British Columbians. Spending on health care will total $5.4 billion this year — a $591 million increase from 1990/91.

This spending will amount to more than $1,680 for each woman, man and child in the province in 1991/92. It has become the largest single area of expenditure, consuming one-third of the total provincial budget.

Bringing health services closer to the people

In recent years, our philosophy has been to bring health care closer to people through community-based care. For example, our mobile mammography unit is providing service around the province. In addition, we will be building new cancer clinics outside Vancouver and Victoria.

This year, the Medical Services Plan will be expanded to include a travel allowance system to assist patients who have to obtain specialized treatment away from home.

British Columbians are justifiably proud of our health care system. It is second to none in the extent of its coverage and the quality of care. And this government will protect that accessibility for all British Columbians.

However, the ever-increasing cost of our health care system is a major concern to taxpayers. To help pay for the fast-rising cost of prescription drugs, we are raising the Pharmacare deductible by $50.

Last year, the government created the Royal Commission on Health Care and Costs to look closely at the effectiveness and efficiency of the province's health care delivery system. I look forward to reviewing the suggestions of the Royal Commission when it presents its final report later this year.

. . . working in partnership

Mr. Speaker, the quality of our health care system depends on the people who provide the services. This government recognizes the dedication of our nurses, doctors and other care-givers. Working in partnership, we are building a system that can harness the best new technologies and meet the challenges of the future.

Mr. Speaker, society cannot tolerate the human and economic cost of alcohol and drug abuse. People are killed, families are ruined and workplaces disrupted. The province has committed major resources to help deal with this problem. In 1991/92, we will spend almost $50 million to provide substance abuse treatment at detoxification centres, out-patient clinics and residential treatment centres.

PREPARING OUR CHILDREN FOR THE FUTURE

Mr. Speaker, our government knows the importance of preparing the younger generation. They are our most important investment for the future. Our children will have to compete in a fast-changing and increasingly competitive job market.

Education . . . for jobs

But education is more than an economic issue, Mr. Speaker. Education allows people to be full contributors and participants in society. It helps them understand life's complexities and leads to a richer life.

. . . for a richer life

Mr. Speaker, even in these more difficult economic times, the schools of British Columbia are well-funded by the provincial government. Funding will total $3.3 billion in 1991/92, a $232 million increase from 1990/91.

This increased funding will ensure quality education for over 530,000 students in public schools and 35,000 students attending provincially-supported independent schools.

Mr. Speaker, the Year 2000 initiative in education puts British Columbia in the lead across North America in providing quality opportunities for our young people. The success of this initiative depends on the dedication of teachers, school boards and parents alike. But changes as sweeping as these can bring uncertainty. The Minister of Education will be meeting those affected to ensure that their concerns are addressed — and that we achieve the goals of this important blueprint for the future.

Mr. Speaker, children can't learn if they are hungry. We are working with school boards around the province to put in place a school lunch program.

Bringing post-secondary education to the people

Beyond public school, this government promised to make post-secondary education accessible to more British Columbians in all regions of the province. We have taken action on this promise.

The government's Access for All initiative is now well on its way to achieving its objective — upgrading and expanding the post-secondary system.

We have provided funding to start construction of the new University of Northern British Columbia in Prince George. This university will be accepting students in the fall of 1993.

Mr. Speaker, the government is also studying the establishment of a degree-granting institution in the upper Fraser Valley. The demand for higher education is growing quickly in this area of the province. We will identify the best way to meet the needs of Fraser Valley students — quickly and efficiently.

This year, our contributions to the operating budgets of the province's three public universities will total $428 million. Funding of $374 million will be provided to the province's 15 colleges and 5 institutes. In total, spending by the Ministry of Advanced Education, Training and Technology will increase by 8.3 per cent over 1990/91.

Mr. Speaker, we can take great pride in the success of the public-private partnership represented by the University Matching Fund Program. This program has resulted in $100 million in new initiatives for our universities. In recognition of this success, it is being extended for another two years.

Even in uncertain times, we must have the courage to build and invest for the future.

HELPING THOSE IN NEED

Mr. Speaker, a caring government helps people. Our social programs give assistance to those permanently in need, and help those experiencing temporary economic hardship to return to the workforce. In a slowing economy, government social assistance programs become even more important.

Higher unemployment and changes to the federal Unemployment Insurance program have increased the costs of our safety net.

Safety net preserved

To cope, the Ministry of Social Services and Housing will receive a budget increase of $273 million in 1991/92, to almost $2 billion.

Programs for Independence, which provides temporary income assistance to eligible residents, will increase by

$233 million in 1991/92. We will spend a total of $1.2 billion on this critical social service.

Mr. Speaker, we will continue to deliver programs that support the social values of independence and self-sufficiency. We must avoid chronic dependency on government assistance. To this end, we will be negotiating a new five-year agreement with the federal government to help income assistance recipients obtain employment.

Further, to meet increased demands for service, we have added staff to serve those in need. More staff will also help to ensure that those responsible for the payment of family maintenance meet their financial obligations.

. . . service levels increased

Mr. Speaker, our social programs help many people who face very difficult situations in life. These include adults and children with mental or physical disabilities. This year, we continue our commitment to them through increased funding.

With this budget, we reaffirm our belief that people are the number one priority in this province.

PROTECTING THE FAMILY

Mr. Speaker, our Premier and this government are committed to the family. We are now seeking ways of strengthening families to meet the new challenges of our society.

These efforts include improvements to child care services and programs to stop family violence.

In July 1990, the government established the Task Force on Child Care. The Task Force recommended that the quality, accessibility and affordability of child care be increased. In response, $12.1 million has been committed in 1991/92 to increase child day care subsidies and improve the effectiveness of services.

Mr. Speaker, people are very concerned about the rise in family violence. This government shares those concerns.

In British Columbia, we provide a wide array of services for women and children affected by family violence. The

province operates 59 emergency shelters for battered women and their children. We have a Victims' Assistance Program which primarily helps victims of family violence and child abuse.

Government concerned about family violence

The Task Force on Family Violence, which was formed earlier this year, will consult with families, community groups and professionals. I look forward to its recommendations over the next few months.

. . . and taking action

But we will do more. We have committed $4 million in 1991/92 for programs to deal with family violence.

We are particularly saddened by the growing problem of elder abuse. The need for urgent attention to this issue was made clear to us by the Seniors' Advisory Council. It's time to recognize the problem and make people aware. This tragic abuse takes many forms, including violence, and we must stop it.

The Seniors' Advisory Council has travelled the province listening to concerns and suggestions, and recommending action to government.

I congratulate the council on its excellent contribution.

CARING FOR SENIORS

Government values seniors

Mr. Speaker, this government values seniors.

The health, well-being and independence of British Columbia's senior citizens is supported by many government initiatives.

The Shelter Aid for Elderly Renters or SAFER program, for example, assists British Columbians 60 years and older with their rental costs. Funding for the SAFER program will total $17.7 million in 1991/92. The government also provides subsidized bus passes to eligible seniors and low-income British Columbians to ensure they retain their mobility within their community.

In addition, the provincial government supplements the incomes of eligible seniors to ensure they receive an annual income which affords dignity in retirement.

Recent health-care initiatives stress wellness, preventive care and community-based services. These all focus attention where it belongs, on seniors, not on institutions.

Mr. Speaker, these and other programs reflect society's appreciation for the contribution of our seniors — they have made our province what it is today.

MEETING SHELTER NEEDS

Housing Action Plan a success

Mr. Speaker, the government is proud of its achievements under the two-year-old Housing Action Plan.

Successes include:

- 2,000 new social housing units per year for seniors, the disabled and low-income families;
- 6,500 new affordable rental units built or under construction through the Rental Supply Program; and
- over 20,000 homebuyers are assisted each year by the Property Purchase Tax Relief and Mortgage Assistance Programs.

The government will build on these successes. The emerging challenges include:

- increasing the supply of affordable housing; and
- helping British Columbia families buy their first home.

Mr. Speaker, this government believes in homeownership. In particular, young families should have the opportunity to purchase a home in the community they call home.

This government will consult the housing industry and interested groups to determine the best ways of achieving these goals.

Funding for new initiatives will come from the earnings of the Privatization Benefits Fund.

Privatization benefits people

What better investment in our province's future, Mr. Speaker, than to help British Columbians buy homes in British Columbia with the help of the proceeds from our privatization program?

Mr. Speaker, there is a group of people who are having particular difficulty finding adequate accommodation. The shelter needs of the mentally ill are of great concern to this government. Therefore, we intend to create a Legacy Fund from the proceeds of the sale of properties at the Riverview and Woodlands sites in the Lower Mainland. This fund will help develop community-based housing for the mentally ill.

NATIVE ISSUES

Mr. Speaker, we support the desire of Native British Columbians for greater economic and social self-determination.

In August 1990, the provincial government announced that it was prepared to join with the federal government and Native organizations to negotiate a just settlement to land claims.

Land claims settlements will benefit B.C.

Although the federal government bears primary legal and financial responsibility for land claims in British Columbia, the province will contribute its fair and proper share to resolve these historic grievances.

By being an active participant, we will ensure that land claims settlements protect and benefit **all** British Columbians.

The budget for the Ministry of Native Affairs will increase nearly 75 per cent to fund the land claims negotiations process, while an additional $4.8 million will be allocated to other ministries' budgets to assist in the process.

JUSTICE AND SECURITY

Mr. Speaker, British Columbia communities rely on our law enforcement and justice systems for their safety and security. This government is committed to maintaining high standards of justice and protection.

During 1991/92 the Ministry of Attorney General's capital budget will increase to $25 million for the expansion, up-grading and construction of court facilities in all regions of

the province. In addition, the Solicitor General will have completed three new adult correctional centres, which will fully replace the Oakalla facility in 1991/92.

Government will not tolerate gang violence

We will assist our communities in the fight against violent crime. We will not tolerate gang violence. Investigative operations will be supplemented and increased funding will be provided for Crown prosecutors. Mr. Speaker, we will do our utmost to ensure that criminals are brought to justice.

FORESTRY RENEWAL

Mr. Speaker, British Columbia has a diversified economy. But our forests remain the backbone. It is critical that they continue to provide jobs and incomes for British Columbians, while we preserve our natural environment.

Investing in our forests

Earlier this year, the Minister of Forests announced the Forest Renewal Plan. This plan commits $1.4 billion over five years to improve the management of the province's most important natural resource. The plan includes a four-year, $200-million federal-provincial Forest Resources Development Agreement.

Mr. Speaker, the Forest Renewal Plan will benefit British Columbia — now and in the future.

The plan will reforest poorly-restocked lands and increase the growth rates and quality of our second-growth forests through intensive silviculture methods.

PROTECTING OUR ENVIRONMENT

Mr. Speaker, I am always proud when visitors to our province comment on British Columbia's scenic beauty and clean environment. It is a priority of this government to preserve this natural heritage.

Last year, we demonstrated our commitment to protecting the environment by establishing the Sustainable Environment Fund. This fund continues to support environmental protection initiatives throughout the province.

Protecting our natural heritage

Ministry of Environment and Sustainable Environment Fund spending will total $184 million in 1991/92 in support of a wide array of programs. For example:

. . . through environmental protection initiatives

- Vehicle emission testing will begin in 1991/92 in the Lower Mainland. This will help to alleviate air quality problems, particularly in the Fraser Valley.

- The provincial tire and battery recycling programs will be implemented at an estimated cost of $7.4 million.

- Work will continue on the Okanagan Water Quality Program.

- $3.8 million will be spent on fish and wildlife habitat acquisition and enhancement.

- The Environment Youth Corps, a partnership with the Ministry of Social Services and Housing, will be at work around the province in 1991/92 with funding totalling $7 million.

Mr. Speaker, our care for the environment knows no boundaries. We are committed to working with the states in the Pacific Northwest to protect our natural heritage.

We have joined forces to find new ways to protect our precious coastline from environmental disasters. We are collectively taking steps, Mr. Speaker, to improve our air quality, water and land in the southwest corner of the province. Our coastal waterways must be free of pollution of every kind.

Mr. Speaker, we cannot say often enough that our quality of life depends on the quality of our environment. This government will ensure it is protected.

Conclusion

Mr. Speaker, we've delivered a people-oriented, fiscally responsible budget.

We've protected government services to people. And we've protected the taxpayer.

We've put in place legislation to ensure that responsible budgeting continues in the future, and that the burden of debt is reduced.

We've worked hard to soften the blow of this economic downturn. We've said time and again that we learned valuable lessons from the recession of the early 1980s.

We learned to diversify our economy and keep taxes at a manageable level.

We saw again the vital importance of small business in this province.

We learned to save money when times were good, and because of this we don't have to lay off hundreds of workers. We don't have to slash programs.

In fact, we're able to increase spending this year. We're improving programs again — within the taxpayers' ability to pay.

We're not imposing a wage freeze. We've managed our finances well enough that we can deliver fair wage settlements.

We have a better British Columbia than ever before, with better health care, better education, better people programs.

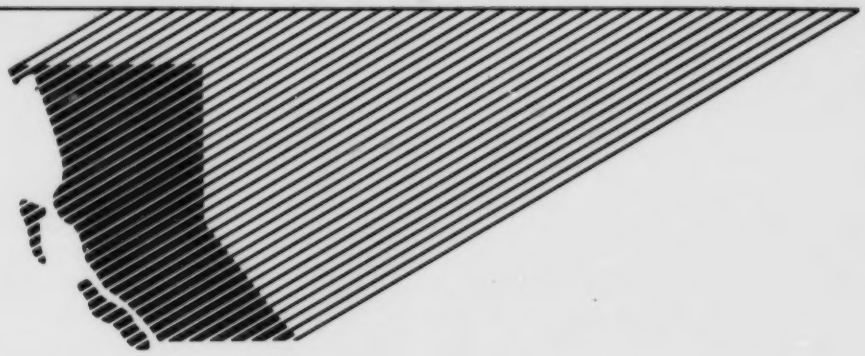
We're better prepared for the challenges of the 1990s. We are providing a strong, competitive climate for business prosperity in the 21st century — the Pacific century.

And we are doing it our way — the British Columbia way — with budgets designed for the people who call British Columbia home.

Mr. Speaker, British Columbia's future is in a stronger, united Canada. Now is the time to do what must be done. We must decide what government should do and which government should do it. We must give taxpayers full value for their money.

This government will continue to lead others in Canada by initiative and by example.

Thank you.



Budget 1991

1991 BUDGET APPENDICES

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APPENDIX A

Economic Review and Outlook

THE BRITISH COLUMBIA ECONOMY IN 1990

After several years of rapid expansion, growth in the British Columbia economy slowed from 4.2 per cent in 1989 to an estimated 1.7 per cent in 1990, although the province continued to outperform the nation. The economy produced 34,000 jobs in 1990 as employment increased 2.4 per cent. The annual unemployment rate fell to 8.3 per cent, its lowest level since 1981. But, by the second half of 1990, the economic slowdown in other parts of North America finally caught up with the provincial economy.

Domestic demand continued to expand in 1990 and carried the provincial economy, despite a decline in the export sector:

- The deepening recession in central Canada made British Columbia an attractive destination for job-seekers. In 1990, net *in-migration* reached a record high of 64,400 persons, which helped boost domestic demand.
- *Retail sales* increased 6.2 per cent in 1990, and the level of housing starts fell 5.6 per cent. Both were down from rapid growth over the 1987-89 period, but they still outperformed the national average.
- *Capital spending* expanded 11.2 per cent in 1990. Once again, growth was lower than in the preceding three years, but better than the national average.

However, by the end of 1990, the economy had come to a standstill. Employment declined 0.2 per cent from the third to fourth quarter of 1990. The unemployment rate rose to 9.2 per cent by the end of the year, after reaching a low of 7.7 per cent in May. Both retail sales and housing starts increased in the first half of the year, but fell in the second half.

About two years ago, weakening world demand for major provincial export commodities began to translate into flat or declining export prices. At the same time, appreciation of the Canadian dollar made provincial exports less competitive on world markets. In 1990, the Export Commodity Price Index for British Columbia declined 5.1 per cent and the value of provincial exports outside Canada fell 10.1 per cent. This squeezed the profit margins of export-oriented businesses and contributed to a 5.0-per-cent decline in employment in the primary and manufactured goods sectors in 1990.

Prices for most major provincial commodity exports softened in 1990:

- *Lumber* prices peaked at U.S. $190 (per thousand board feet) in September 1989 and then fell to U.S. $160 by December 1990, a decline of 15.8 per cent.
- *Pulp* listed for U.S. $750 per tonne in December 1990, down 9.6 per cent from a year earlier.
- *Copper* prices have been volatile recently because of supply disruptions in other countries, and fell 7.8 per cent on average in 1990.

CHART A1
BRITISH COLUMBIA MERCHANDISE EXPORTS
AND EXPORT COMMODITY PRICE INDEX

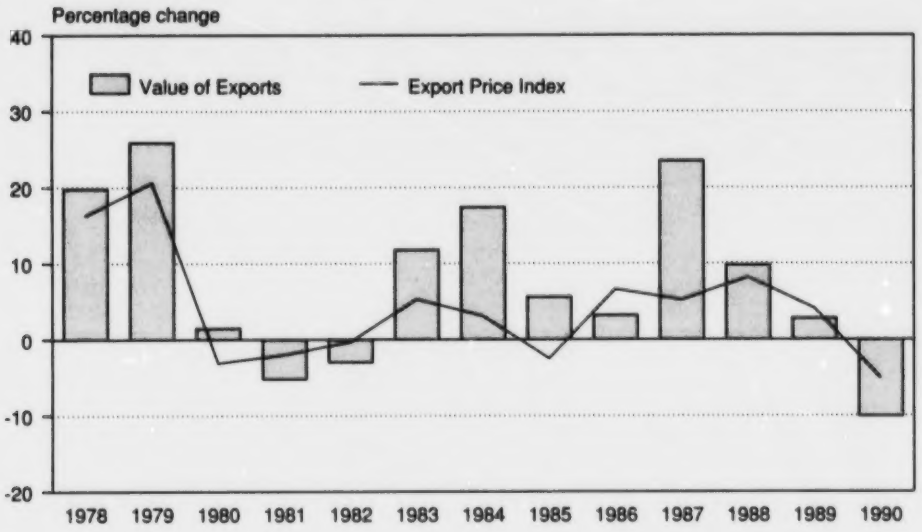
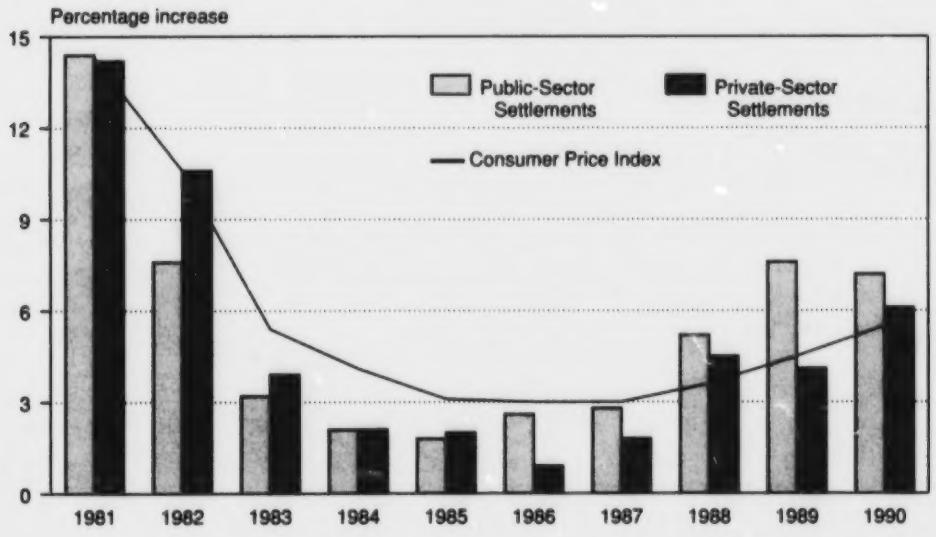


CHART A2
BRITISH COLUMBIA
WAGE SETTLEMENTS AND INFLATION



Inflation pressures resulting from still-strong domestic demand combined with a run-up in oil prices in late 1990 to boost the annual rate of inflation in British Columbia from 4.5 per cent in 1989 to 5.5 per cent in 1990.

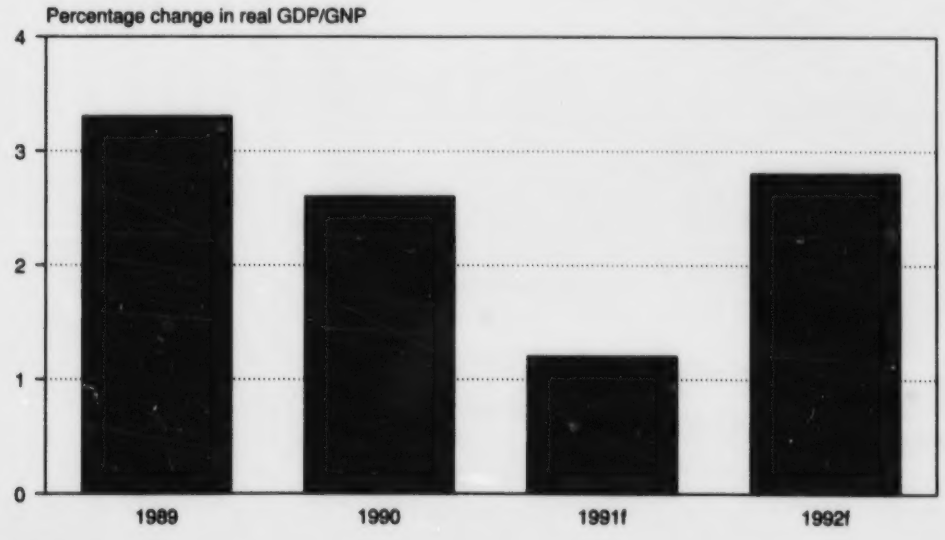
Total wage settlements in British Columbia increased from 4.8 per cent in 1988 to 6.6 per cent in both 1989 and 1990. In each of the last five years, provincial public-sector wage settlements have led private-sector settlements. Public-sector settlements in 1990 averaged 7.2 per cent while those in the private sector averaged 6.1 per cent. The increase in wage settlements in recent years has added to inflationary pressures in both the national and provincial economies. In 1990, British Columbia wage settlements and inflation both exceeded national averages.

THE EXTERNAL ENVIRONMENT

The International Economy

Economic growth in the major industrialized countries slowed more than expected in 1990; the run-up in oil prices and the increased uncertainty arising from the Persian Gulf crisis were major culprits. Average growth in the Group of Seven (G-7) major industrial countries slowed from 3.3 per cent in 1989 to 2.6 per cent in 1990. While the Gulf crisis has subsided, it has already impaired economic growth in many countries and its effect will linger in 1991. Growth in the G-7 countries is expected to slow further to 1.2 per cent in 1991, although conditions will vary: Japan and Germany will continue to grow at fairly rapid rates while North America and the United Kingdom will be in recession for part of the year.

CHART A3
G-7 ECONOMIC PERFORMANCE
AND OUTLOOK



f: Forecast

The United States economy expanded 0.9 per cent in 1990. It is clearly in a recession as real Gross National Product (GNP) fell 1.6 per cent at annual rates in the fourth quarter of 1990 and a further 2.8 per cent in the first quarter of 1991. Growth in the economy is expected to resume by the summer of 1991. The end to the Gulf War stabilized oil markets, reduced the threat of inflation and helped restore business and consumer confidence. In addition, the Federal Reserve Board has reduced interest rates several times since mid-1990. This will stimulate interest-sensitive spending such as business investment, residential construction and consumer spending on durable goods. The Blue Chip consensus of private-sector forecasters predicts real GNP growth of 0.1 per cent in 1991.

In Japan, output growth is expected to slow from 5.6 per cent in 1990 to 3.0 per cent in 1991. Weaknesses are beginning to emerge in some key areas of the economy, such as consumer spending. Growth in business capital spending has been a major source of strength in the Japanese economy in recent years, but there are signs it will slow sharply in 1991, due in part to the recent increase in interest rates. Higher interest rates are squeezing demand for new homes in Japan, and housing starts have declined recently; but according to the Nomura Research Institute, strong underlying demand for housing should curb any sharp drop in housing starts in the near future.

Economic growth in Germany[1] accelerated to 4.6 per cent in 1990 as the re-unification of East and West Germany in 1990 triggered a surge in domestic demand. Government spending on re-unification is expected to result in a consolidated government deficit of up to 160 billion deutschemarks (6.5 per cent of Gross Domestic Product — GDP) in the 1991 fiscal year, despite federal tax increases. Real GDP is expected to grow 2.9 per cent in 1991.

As the economies of Germany and Japan continue to expand, inflation pressures have begun to emerge; their monetary authorities have increased interest rates to combat these pressures. This will make it more difficult to lower interest rates further in North America. On the other hand, continued growth in these economies is providing demand for North American exports and this should encourage an economic recovery.

The Canadian Economy

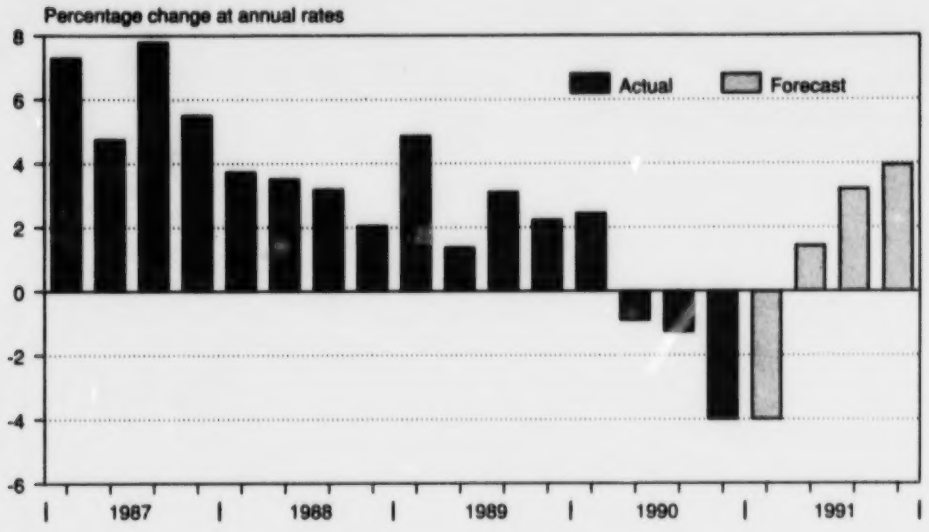
After several years of strong growth, the Canadian economy finally succumbed to high interest rates and a strong dollar and slipped into recession in the second quarter of 1990. Real GDP growth slowed from 3.0 per cent in 1989 to 0.9 per cent in 1990, the lowest annual increase since 1982. As the year progressed, the recession deepened. In the fourth quarter, the contraction accelerated as output fell 4.1 per cent at annual rates, partly due to the downturn in the U.S. economy. In total, output declined 1.6 per cent from its first quarter peak to the fourth quarter of 1990.

After peaking in April 1990, employment fell 347,000, or 2.7 per cent, by March 1991. The unemployment rate soared to 10.5 per cent in March from its nine-year low of 7.2 per cent a year earlier. So far, the recession has been much more severe in Ontario and Quebec than in other regions. These two provinces have accounted for about four-fifths of the decline in employment in Canada since the beginning of the recession.

The recent run-up in energy prices and the impact of the goods and services tax (GST) combined to boost the year-over-year rate of inflation to 6.3 per cent in

[1] "Germany" refers to western Germany, or the pre-unification Federal Republic of Germany.

CHART A4
CANADIAN REAL GROSS DOMESTIC PRODUCT



March 1991, compared to an average of 4.8 per cent in 1990. However, inflation pressures will likely recede during the remainder of 1991. Oil prices have returned to levels prevailing before the invasion of Kuwait, and the recession should dampen inflation pressures and offset the effect of the GST.

The demand for credit eased substantially in 1990 and early 1991. As a result, interest rates have fallen. The Bank of Canada rate fell from a peak of 14.0 per cent in May 1990 to 9.5 per cent in April 1991. Long-term rates fell by a lesser amount over the same period, and short-term rates moved below long-term rates for the first time in over two years. U.S. interest rates have also fallen, and the spread between Canadian and U.S. short-term interest rates narrowed from 5.8 percentage points in May 1990 to 3.6 percentage points in April 1991. Weak credit demand in 1991 is expected to result in the Bank of Canada rate declining from an average of 13.0 per cent in 1990 to 9.7 per cent in 1991.

Despite the narrowing of Canada-U.S. interest rate differentials, the Canadian dollar has remained stable against the U.S. dollar, trading in the 86-to-87 U.S. cent range for the first four months of 1991. This may be due to improved inflation performance and prospects in Canada. Nevertheless, further narrowing of interest rate differentials should put downward pressure on the dollar.

The downturn in the Canadian economy is likely to continue through the first half of 1991, and a recovery should begin by the second half of the year. There are several factors that will contribute to the turnaround. The swift conclusion of the Gulf War removed a potentially major obstacle to the resumption of economic growth. The recent decline in interest rates should boost interest-sensitive spending. And, a resumption of growth in the United States, Canada's major foreign market, should contribute to a rebound in the export sector.

There are already some signals that the economy is moving towards recovery. For example, in April, Canadian employment increased by 39,000, and the unemployment rate fell from 10.5 per cent to 10.2 per cent. Housing starts also increased 33 per cent in April.

Comparing Recessions

The Canadian and U.S economies are now in recession, and indicators suggest a shallow recession may be underway in British Columbia. (The most common definition of a recession is a decline in real GDP for at least two consecutive quarters.) Including the current downturn, the Canadian economy has experienced nine recessions of varying duration and severity over the last 40 years, according to Statistics Canada. Looking at past cycles — or recessions — provides a broader perspective from which to view the current downturn.

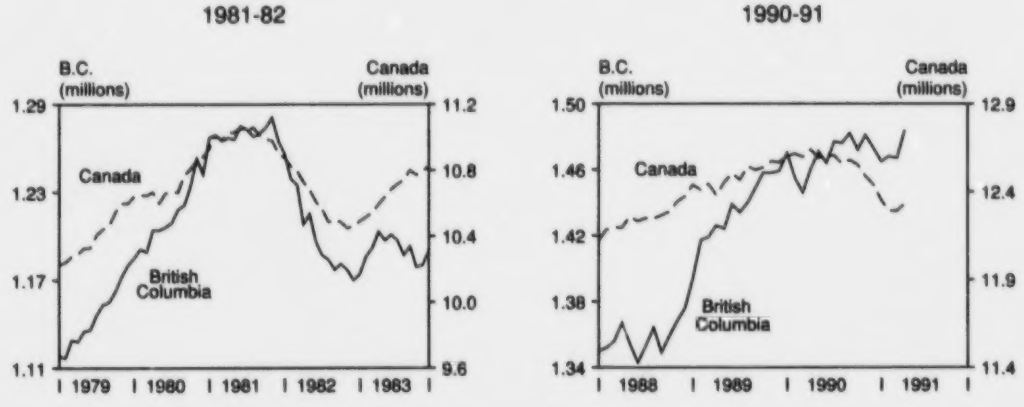
The current national recession began in the second quarter of 1990, and most analysts expect it to end by mid-1991. If so, it will be almost as long as the 1981-82 recession, but it should be much less severe — 1981-82 was the most severe recession in the last 40 years. In the 1981-82 recession, real GDP fell 5.3 per cent and employment fell 5.2 per cent from peak to trough[1]. WEFA Canada, an economic forecasting firm, recently predicted that the total peak-to-trough decline in Canadian real GDP and employment in this recession will be 2.3 per cent and 2.6 per cent, respectively. These declines are only about half as large as in 1981-82.

British Columbia has experienced two recessions since the late 1970s and may be in the middle of a third.

- In 1981, most major industrialized economies, including those of Canada and the United States, went into recession at roughly the same time. This resulted in a sharp fall in world demand and weakening prices for major British Columbia exports. A very sharp recession in the province followed: from the peak in the second quarter of 1981 to the trough in the third quarter of 1982, real GDP fell 7.5 per cent. Employment peaked in the fourth quarter of 1981 and declined 7.6 per cent. Real retail sales contracted 16.3 per cent and housing starts fell 73.5 per cent from their peaks in the first quarter of 1981.
- In 1986, both Canada and the U.S. went through a temporary slowdown that weakened demand for British Columbia exports; at the same time, the provincial economy was hit by a 20-week labour dispute in the forest products industry. The combination pushed the economy into a moderate recession with peak-to-trough declines of 3.2 per cent in real GDP, 0.8 per cent in employment, 1.1 per cent in the volume of retail sales and 26.9 per cent in housing starts.
- In 1990, the provincial economy continued to expand, but the recession in the rest of North America began to have an impact by the second half of the year. Indicators suggest a short and mild recession may have begun late in 1990. From its peak in the third quarter of 1990, provincial employment declined 0.7 per cent by the first quarter of 1991. (In comparison, Canadian employment fell a total of 2.4 per cent from its peak in the second quarter of 1990). So far, the volume of British Columbia retail sales has fallen 4.8 per cent and housing starts, 53.6 per cent. In this downturn, the peak-to-trough decline in output and employment should be much milder than in the severe provincial recession of 1981-82.

In the past, the British Columbia economy has reacted quickly to downturns in the rest of the North American economy, but this relationship appears to be muted in the current slowdown. There are two main factors behind this evolution. First, high rates of in-migration are continuing to support domestic demand despite weakness in the export sector. Second, interest rates began falling before the recession took hold in British Columbia. As a result, some interest-sensitive components of demand, such as housing, appear to be recovering already.

EMPLOYMENT IN BRITISH COLUMBIA AND CANADA



[1] "Peak to trough" corresponds to the decline in an indicator from its peak around the beginning of a recession to its lowest point around the end of a recession; all measures are based on seasonally adjusted quarterly data.

The Canadian economy is expected to shrink 1.0 per cent in 1991, employment will decline 1.5 per cent, and the unemployment rate is projected to average 10.4 per cent, up sharply from 8.1 per cent in 1990. The GST will boost the inflation rate from an average of 4.8 per cent in 1990 to 5.8 per cent in 1991. Restrictive monetary policy and the deflationary effects of the recession should combine to push the inflation rate below 4 per cent in 1992.

THE BRITISH COLUMBIA ECONOMY

1991 Outlook

Some economic indicators suggest that the British Columbia economy slipped into a shallow recession late in 1990 and remained flat or declined slightly in the early part of 1991. For example, employment fell 0.2 per cent from the third to fourth quarter of 1990 and declined a further 0.5 per cent in the first quarter of 1991. However, in April 1991, employment rose by 1.2 per cent or 17,000 jobs, suggesting that the downturn should be short.

There are three main factors that will contribute to an anticipated economic recovery in the second half of 1991.

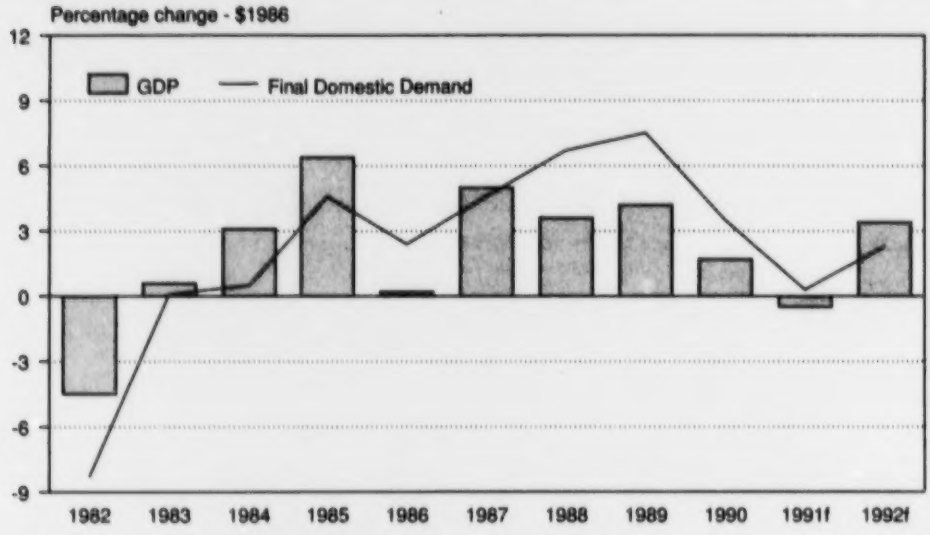
First, continued high levels of net in-migration will provide some support to domestic demand, regardless of economic conditions.

Second, the recent decline in interest rates and recovery of business and consumer confidence following the Gulf War will help stimulate business investment, residential construction and consumer spending on big-ticket items like household furniture and automobiles. Lower interest rates should result in a slight decline in the Canadian dollar in 1991, making provincial exports more competitive on world markets.

Third, an anticipated economic turnaround in the United States in the second half of 1991 along with continued growth in Pacific Rim economies will increase demand for British Columbia exports. This will help stabilize or increase their prices. For example, a recent Bank of Nova Scotia report concluded that the price of forestry products ". . . is probably near its low for this business cycle." In the United States, the decline in interest rates and improving economic conditions should lead to a significant upswing in housing starts in the second half of the year — they hit a nine-year low at the beginning of 1991. This will increase the demand for lumber just as the supply of timber from the U.S. Pacific Northwest may be restricted by efforts to preserve forest habitat. The result should be a significant recovery in the price of lumber, a key provincial export, by the end of 1991. Resource Information Systems, a forest products forecasting firm, predicts a tightening lumber market will push prices up 30 per cent from current levels to about U.S. $250 per thousand board feet by mid-1992.

The British Columbia economy is expected to contract in the first half of 1991, and then recover in the second half of the year. Real GDP is projected to decline 0.5 per cent for the year as a whole. This fall in output in 1991 is largely due to a projected decline in business capital investment and real net exports (export volumes minus import volumes). Consumer spending and government outlays will be the leading components of demand in 1991, with real growth of 1.6 and 3.0 per cent, respectively. Nevertheless, consumer spending will grow more slowly than in 1990.

CHART A5
BRITISH COLUMBIA
GDP AND FINAL DOMESTIC DEMAND



f: Forecast

The investment forecast is in line with Statistics Canada's survey of public and private investment intentions which suggests that nominal capital spending in British Columbia will fall 3.2 per cent in 1991. This is a sharp contrast to the last four years when it increased at an average annual rate of 17 per cent. The weakest component of investment spending in 1991 will be residential construction. Housing starts are forecast to decline 32 per cent to 24,800 units in 1991, with most of the weakness occurring in the first half of the year. By the second half, falling interest rates and a general improvement in economic conditions should combine with pent-up demand to push housing starts higher.

Employment growth will slow from 2.4 per cent in 1990 to 0.3 per cent in 1991. More rapid labour force growth, partly due to in-migration, will push the unemployment rate up to 10.2 per cent in 1991 from 8.3 per cent in 1990. Personal income is expected to increase 5.6 per cent in 1991, slightly less than the rate of inflation.

The projected 1.6-per-cent growth in real consumer spending is concentrated in less cyclically-sensitive components such as services and non-durable goods (e.g., food). Consumption of durable goods (e.g., furniture, appliances and automobiles) has already fallen significantly and is projected to decline an average of 1.9 per cent in real terms in 1991, even with an expected recovery in the second half of the year. The value of retail sales is forecast to increase 6.0 per cent in 1991; the volume of retail sales will decline 0.2 per cent.

The relatively shallow recession in British Columbia has generated less deflationary pressure than in the rest of Canada. Consequently, inflation in British Columbia is expected to remain slightly above the national average. The provincial inflation rate is forecast at 6.2 per cent in 1991, with about 1.5 percentage points of this due to the GST. Inflation is forecast to decline to 3.7 per cent in 1992.

Table A1
BRITISH COLUMBIA ECONOMIC INDICATORS

	1989	1990	1991[f]	1992[f]
Gross Domestic Product ($ millions)	76,332	81,085	85,012	91,419
(percentage change)	10.2	6.2	4.8	7.5
Real Gross Domestic Product (millions of 1986 dollars)	64,968[e]	66,059[e]	65,729	67,964
(percentage change)	4.2	1.7	−0.5	3.4
New Capital Investment ($ millions)	15,925	17,712	17,147	18,416
(percentage change)	25.3	11.2	−3.2	7.4
Housing Starts (units)	38,894	36,720	24,800	29,200
(percentage change)	27.6	−5.6	−32.5	17.7
Retail Sales* ($ millions)	23,036	24,473	25,941	27,627
(percentage change)	9.6	6.2	6.0	6.5
Consumer Price Index (1986=100)	111.5	117.6	124.9	129.5
(percentage change)	4.5	5.5	6.2	3.7
Population, 15 Years and Over (thousands)	2,364	2,425	2,491	2,548
(percentage change)	2.5	2.6	2.7	2.3
Labour Force (thousands)	1,578	1,601	1,640	1,673
(percentage change)	4.2	1.5	2.4	2.0
Employment (thousands)	1,435	1,469	1,473	1,494
(percentage change)	5.7	2.4	0.3	1.4
Unemployment Rate (per cent)	9.1	8.3	10.2	10.7
Other Forecasts of Real Gross Domestic Product:		percentage change		
Bank of Nova Scotia (January 1991)	—	2.5	−0.6	n.a.
Royal Bank of Canada (March 1991)	—	2.3	−0.8	3.0
Conference Board of Canada (April 1991)	—	1.8	−1.8	3.5
British Columbia Central Credit Union (April 1991)	—	2.1	0.5	1.5

[e] Ministry of Finance and Corporate Relations estimate.
[f] Forecast.
* Actual retail sales data include the old federal sales tax; forecast data include the GST.

1992-95 Outlook

By the end of 1991, the British Columbia economy will have regained lost momentum and will sustain economic growth of between 3.0 and 3.5 per cent a year out to 1995. Firming markets for provincial exports, especially forestry products, will support economic growth in the province. At the same time, continued net in-migration will boost domestic demand and, by increasing the size of the labour force, will increase the economy's long-term growth rate. Over the 1992-to-1995 period, the British Columbia economy is forecast to grow at an average annual rate of 3.3 per cent, the same average rate as the Canadian economy. Employment is expected to grow at an average annual rate of 2.3 per cent, or an average of 35,000 new jobs each year.

Over the next four years, economic growth will be led by real business investment and consumer spending, which are expected to grow at average annual rates of 5.0 and 3.3 per cent, respectively. Final domestic demand is projected to grow at an average rate of 3.1 per cent a year. Provincial government spending growth will be limited over the next four years. Consequently, total government spending will be a moderating influence on domestic demand over the medium term.

RISKS TO THE FORECAST

There are a number of factors that could affect the outlook:

- Political and economic turmoil in the Soviet Union and eastern Europe could create severe problems for western European economies and generally dampen the outlook for global trade.
- Global capital markets have tightened recently, partly because capital outflows from Germany and Japan have declined. In addition, U.S. financial institutions have restricted lending, partly to help meet new capital adequacy standards. If these trends continue, a global "credit crunch" could drive up world interest rates and substantially weaken external economic conditions, thereby delaying a recovery in the British Columbia economy.
- Urban real estate in Japan appears to be over-valued. A sharp fall in property values could sharply reduce growth in the Japanese economy, damaging British Columbia's second-largest export market and delaying an economic recovery.
- British Columbia is facing a crowded labour bargaining schedule in 1991. If serious labour disruptions occur, they could derail an economic recovery.

APPENDIX B

Fiscal Review and Outlook

REVIEW OF 1990/91

British Columbia's fiscal situation is closely linked to the performance of the provincial economy. Slower-than-expected economic growth in 1990 caused total provincial government revenue to be $242 million below the 1990 budget estimate. Consequently, additional revenue of $242 million was transferred from the Budget Stabilization Fund to bring General Fund revenue to its budgeted level. This results in a total revenue transfer of $926 million to the General Fund in 1990/91 (see Table B1).

Table B1

OPERATING TRANSACTIONS
GENERAL FUND AND SPECIAL FUNDS

	Estimate 1990/91[1]	Revised Forecast 1990/91[1]	Estimate 1991/92
		($ millions)	
General Fund:			
General Fund Revenue	15,308.0	15,308.0	16,150.0
General Fund Expenditure	15,308.0	15,293.0	16,545.0
General Fund Surplus (Deficit)	—	15.0	(395.0)
Budget Stabilization Fund:[2]			
Opening Balance	1,603.0	1,599.9	839.0
Transfer to General Fund	(684.0)	(926.0)[3]	(839.0)
Interest Earnings from the General Fund	160.0	165.1	—
Closing Balance	1,079.0	839.0	—
Privatization Benefits Fund:			
Opening Balance	422.5	420.9	477.5
Privatization Proceeds	20.0	22.6	12.0
Investment Earnings	32.0	34.0	37.5
Transfer to General Fund	(30.0)	—	(8.0)
Closing Balance	444.5	477.5	519.0

[1] Restated to conform to the *1991/92 Estimates*.
[2] The Budget Stabilization Fund was dissolved on April 1, 1991.
[3] Includes an additional transfer of $242 million to increase General Fund revenue to the 1990/91 budgeted level.

General Fund expenditure is estimated to be $15 million below budget at year end. As a result, the General Fund had a surplus of $15 million.

The balance in the Budget Stabilization Fund decreased to $839 million. Transfers to the General Fund totalling $926 million were partially offset by interest earnings of $165 million.

The Privatization Benefits Fund had an estimated balance of $478 million at year end, up $57 million from the previous year. This includes privatization proceeds of $23 million, mainly from highway maintenance asset leases, and investment earnings of $34 million.

Lower-than-expected revenues and lower cash balances at the beginning of the year increased the provincial government's borrowing requirements. Gross borrowing of $2,042 million exceeded redemptions and changes in sinking fund and unamortized discount balances totalling $1,524 million. As a result, net government direct debt increased by $517 million (see Table B2).

Revenue

Total revenue, before Budget Stabilization Fund transfers, was $14,382 million in 1990/91, up 3.5 per cent from the comparable figure for 1989/90. This is down 1.7 per cent from the original budget estimate (see Table B3). As noted earlier, additional revenue of $242 million was transferred from the Budget Stabilization Fund, effective March 31, 1991, to bring General Fund revenue to its budgeted level.

Taxation revenue of $8,948 million was on budget. Stronger growth in personal incomes led to higher-than-expected personal income tax collections. However, weaker corporate profits and slower growth in retail sales resulted in significantly lower collections of corporation income and social service tax revenues. In addition, the drop in real estate activity in 1990 resulted in property purchase tax revenue being 37 per cent below budget.

Natural resource revenue of $1,175 million was down $96 million or 7.6 per cent from the original budget estimate, mainly because of lower forests revenue. Timber sales volumes declined by 10 per cent from budget due to mill shutdowns during the year.

Other revenue of $1,570 million was slightly below budget. Slower economic activity resulted in lower revenues from land registry fees, Crown land real estate sales, and motor vehicle licences and permits. However, increased in-migration and higher interest rates led to higher revenues from Medical Services Plan premiums and investment earnings.

Contributions from government enterprises of $621 million were down $19 million or 3.0 per cent from the original budget estimate due to lower contributions from the Liquor Distribution Branch and lower dividends received from the British Columbia Hydro and Power Authority.

Contributions from the federal government of $2,068 million were down $109 million due to lower cash contributions for Established Programs Financing. Because personal income tax revenue was above budget, more of the federal contributions were paid through tax transfers.

In its 1990 budget, the federal government announced it would limit annual growth in Canada Assistance Plan (CAP) payments to the province to five per cent. During 1990, British Columbia successfully appealed this federal action. The federal government's appeal of that decision is now being reviewed by the Supreme Court of Canada.

The 1990/91 revised forecast includes British Columbia's full entitlement to CAP recoveries, since the federal government continues to make payments on an unadjusted basis while the decision is reviewed.

General Fund Expenditure

In 1990/91, General Fund expenditure is estimated at $15,293 million, $15 million below budget. As a result of expenditure controls undertaken during the year, spending pressures in some ministries were more than offset by savings in others (see Table B4).

During 1990/91, expenditure pressures developed in the Ministry of Health due to higher-than-expected costs for the settlement with physicians and higher spending on Pharmacare. Spending was $138 million above budget.

Spending was $50 million above budget in the Ministry of Social Services and Housing, due to higher expenditures for income assistance and child care. Ministry of Forests expenditure was $33 million above budget due to increased costs for fire fighting, while expenditure of the Ministry of Solicitor General was $23 million higher than expected because of additional spending for flood relief.

Within Management of Public Funds and Debt, interest payments to third parties were $50 million higher than budget because of higher-than-expected interest rates and increased borrowing during 1990/91.

These pressures were more than offset by savings achieved in a number of ministries and special accounts including:

- Ministry of Energy, Mines and Petroleum Resources, which was $21 million under budget mainly due to fewer-than-expected Vancouver Island pipeline natural gas conversion grants paid in 1990/91.
- Ministry of Municipal Affairs, Recreation and Culture, which was $55 million under budget because of reduced spending for conditional revenue sharing grants.
- Lottery Fund Special Account, which was $40 million below budget because of a lower portion of grant commitments paid during 1990/91.
- Sustainable Environment Fund Special Account, which was $72 million below budget because of reduced reforestation expenditures and delayed spending for environmental programs.
- Other appropriations, which had a $34 million underexpenditure due to delayed forest settlements for South Moresby Park.

1991/92 FISCAL PLAN

Total revenue for 1991/92 is estimated at $15,311 million, an increase of 6.5 per cent from the 1990/91 revised forecast. This includes $209 million in revenue measures introduced in the 1991 budget.

Under the *Taxpayer Protection Act*, the Budget Stabilization Fund was dissolved on April 1, 1991, and its balance of $839 million was transferred to the General Fund. As a result, General Fund revenue will total $16,150 million in 1991/92 (see Table B1).

General Fund expenditure for 1991/92 is estimated at $16,545 million, an increase of 8.1 per cent from the 1990/91 estimates. As revenue growth is lower than expenditure growth in 1991/92, the General Fund is estimated to have a deficit of $395 million.

Proceeds from the sale and lease of government assets are expected to yield $12 million in revenue for the Privatization Benefits Fund during 1991/92. Investment earnings of the fund are estimated at $38 million. During 1991/92, $8 million of investment earnings will be transferred to the General Fund.

Declining Federal Transfers

In its 1991 budget, the federal government continued to transfer more of the burden of deficit control to the provinces. The two most important transfers affected were the Established Programs Financing (EPF) arrangement and Canada Assistance Plan (CAP) funding.

ESTABLISHED PROGRAMS FINANCING

In 1977, the Established Programs Financing arrangement replaced the previous cost sharing mechanism for financing medical care, hospital insurance and post-secondary education.

This "block" funding mechanism ended the tying of federal expenditures to provincial program costs. Instead, the federal contribution was calculated as a fixed per capita value, increased annually in accordance with recent growth in the gross national product.

EPF currently makes up 52 per cent of the value of federal transfers to British Columbia.

Because EPF helps fund areas of rapid cost growth, it was never thought of as a particularly generous federal transfer. Despite this, the EPF arrangement was subjected to a series of arbitrary federal measures designed to reduce federal contributions, beginning in the early 1980s.

By 1989/90, the annual federal contribution to British Columbia was $396 million lower than it would have been under the original formula.

FREEZES ANNOUNCED IN 1990 AND 1991 FEDERAL BUDGETS

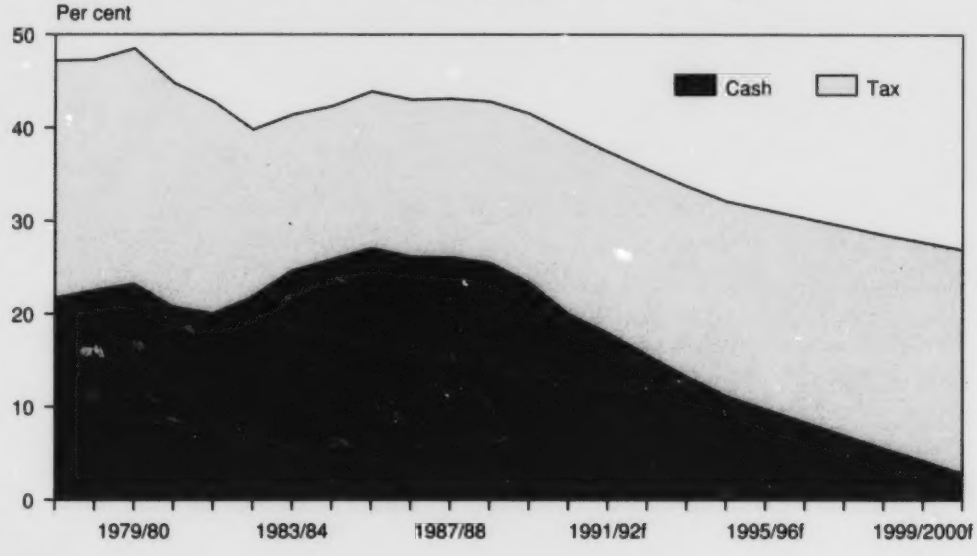
In its 1990 budget, the federal government announced significant spending reductions to deal with a mounting deficit problem. The primary instrument of this spending restraint was a reduction in planned federal transfers to the provinces. The major component was a *two year freeze* in the per capita growth of the Established Programs Financing transfer, beginning in 1990/91. The 1991 federal budget *extended* this freeze for a further three years.

The following table shows the effect of these measures.

Fiscal Year	Shortfall in B.C. Revenue: Effect of Pre-Freeze Measures	Shortfall in B.C. Revenue: Additional Effect of Freeze	Total Financial Impact
	($ millions)		
1990/91	516.1	140.9	657.0
1991/92	641.3	249.0	890.3
1992/93	761.2	276.1	1,037.3
1993/94	887.2	290.7	1,177.9
1994/95	1,028.5	328.6	1,357.1
TOTAL	3,834.3	1,285.3	5,119.6

For a number of years, the federal contribution has been *declining* as a share of provincial spending on health care and post-secondary education. The

EPF TRANSFERS AS A PROPORTION OF BRITISH COLUMBIA HEALTH CARE AND POST SECONDARY EDUCATION COSTS



f: Forecast

latest change to the EPF formula will accelerate this decline. Whereas the federal contribution once offset just under half of the cost of this programming, in 1991/92 it accounts for only 37 per cent of British Columbia's costs; this proportion will fall to 27 per cent by the end of the decade (see chart on previous page).

Because the EPF transfer is split into a cash portion and a tax transfer portion, the decline shown in the chart will have a more pronounced effect than is readily apparent. When growth in the overall EPF contribution (cash and tax) is curtailed and growth in the tax point transfer component is determined by generally faster growth in income tax revenues, it is only a matter of time before the cash transfer, as the residual, disappears.

It is estimated that this will happen within the next 12 years.

The cash transfer is the only amount which is recorded as a federal contribution. Its disappearance will leave the federal government with no "lever" with which to exercise management control over program standards (as is now done through the *Canada Health Act*). The federal government recognizes this and in the 1991 federal budget announced plans to bring in legislation to allow it to exact funding penalties from equalization and Canada Assistance Plan transfers for non-compliance by the provinces with federal conditions.

CANADA ASSISTANCE PLAN

The CAP transfer assists the provinces in the funding of social assistance and social services to those in need. It represents 40 per cent of the value of federal transfers to the province.

The 1990 federal budget announced limits on the growth of Canada Assistance Plan transfers to those provinces not receiving equalization. The limit was to be 5 per cent over 1989/90 for 1990/91 and 10 per cent over 1989/90 for 1991/92.

British Columbia felt that this federal action was unwarranted, because it was at variance with the terms of a signed federal-provincial agreement. The CAP agreement stipulates that without mutual consent, changes require one year's notice.

Accordingly, in spring 1990, the British Columbia government initiated a court challenge over this measure. Several provinces intervened on British Columbia's behalf.

On June 15, 1991, the British Columbia Court of Appeal decided in British Columbia's favour. However, the federal government has appealed the case to the Supreme Court of Canada. The case was heard on December 11 and 12, 1990. A decision is expected soon.

Despite losing the British Columbia Court of Appeal decision in 1990, the federal government, in its 1991 budget, extended its growth limitation on CAP for a further three years.

If the federal government wins this appeal, the effect of the growth limitation on CAP will be to reduce 1990/91 revenue by $48 million and 1991/92 revenue by $156 million. While it is difficult to predict future costs of social assistance, it is probable that this measure will cost British Columbia several hundred million dollars in the 1992/93 to 1994/95 period.

The federal action is of considerable concern because during the ensuing legal challenge the federal government based its case on an interpretation of the powers of the federal Parliament, to the effect that this body must not be constrained in its ability to manage its fiscal affairs.

If this is held to be a valid operating principle, it will set a dangerous precedent. It will effectively authorize the federal government to release itself from the funding provisions of *any* signed agreement.

CONCLUSION

These federal restraint actions not only cast considerable doubt on the continued viability of joint funding mechanisms, they call into question the commitment of the federal government to upholding the terms of existing federal-provincial agreements.

Table B2
THE FINANCING PLAN

	Estimate 1990/91	Revised Forecast 1990/91	Estimate 1991/92
		($ millions)	
Financial Requirements:			
General Fund Deficit (Surplus)	—	(15.0)	395.0
Budget Stabilization Fund Decrease (Increase)[1]	524.0	760.9	839.0
Privatization Benefits Fund Decrease (Increase)	(22.0)	(56.6)	(41.5)
Net Disbursements (Receipts) from Financing and Working Capital Transactions	259.8	58.5	149.5
Total Financial Requirements	761.8	747.8	1,342.0
Financial Sources:			
Gross Borrowing for Government Purposes	1,073.0	2,041.6	1,982.3
Less Retirement Provisions	1,151.2	1,524.2	720.3
Net Borrowing (Repayment)	(78.2)	517.4	1,262.0
Decrease (Increase) in Cash and Temporary Investments	840.0	230.4	80.0
Total Financial Sources	761.8	747.8	1,342.0

[1] The Budget Stabilization Fund was dissolved on April 1, 1991.

Due to increased financial requirements, government direct debt is expected to increase in 1991/92. Gross borrowing for government purposes of $1,982 million will be partly offset by debt retirement provisions totalling $720 million. This results in a $1,262 million increase in net debt outstanding at March 31, 1992 (see Table B2).

Revenue

Taxation revenue, the largest source of provincial government revenue, is expected to total $9,435 million in 1991/92, up 5.4 per cent from the 1990/91 revised forecast (see Table B3). Continued growth in personal incomes and the high income surtax introduced in the budget are expected to raise personal income tax revenue by $206 million in 1991/92. Corporation income tax revenue is estimated to increase by 10.9 per cent to $674 million, due to increases to the general rate announced in the budget and British Columbia's increasing share of Canadian corporate profits.

Social service tax revenue, estimated at $2,055 million, is expected to increase by 2.8 per cent due to expected growth in consumer spending. The 3.7 per cent increase in property tax revenue in 1991/92 reflects the effect of new construction only and not changes to assessments of existing properties. Home Owner Grants, which are a credit against residential school property tax revenues, will increase by $62 million as a result of a larger number of recipients and an increase to the supplemental Home Owner Grant introduced in the 1990 budget.

Fuel tax revenue is expected to decline 2.3 per cent due to lower retail prices, while tobacco tax revenue will rise by 30 per cent due to increased tax rates

announced in the budget. A recovery in real estate markets due to declining interest rates and continued in-migration is expected to cause an increase in property purchase tax revenue of 11.6 per cent.

Natural resource revenue is expected to increase by 4.0 per cent to $1,222 million. Revenue from petroleum, natural gas and minerals will decline by 2.5 per cent, due to lower sales of drilling rights to Crown land. Forests revenue is forecast to increase by 4.9 per cent as a result of an expected recovery in U.S. lumber demand in the second half of 1991. Water rental revenue is estimated to increase 10.8 per cent due to increased electricity generation in 1990/91.

Table B3
REVENUE BY SOURCE

	Estimate 1990/91	Revised Forecast 1990/91	Estimate 1991/92	Increase (Decrease)[1]
		($ millions)		(per cent)
Taxation Revenue:				
Personal income	3,695.0	4,141.0	4,347.0	5.0
Corporation income	705.0	608.0	674.0	10.9
Social service	2,216.0	2,000.0	2,055.0	2.8
Property	885.0	893.0	926.0	3.7
Fuel	590.0	555.0	542.0	(2.3)
Other	859.0	751.0	891.0	18.6
	8,950.0	8,948.0	9,435.0	5.4
Natural Resource Revenue:				
Petroleum, natural gas and minerals	319.0	326.0	318.0	(2.5)
Forests	716.0	612.0	642.0	4.9
Water and other	236.0	237.0	262.0	10.5
	1,271.0	1,175.0	1,222.0	4.0
Other Revenue	1,586.0	1,570.0	1,729.0	10.1
Contributions from Government Enterprises	640.0	621.0	640.0	3.1
Contributions from the Federal Government:				
Established Programs Financing	1,225.0	1,110.0	1,187.0	6.9
Canada Assistance Plan and other[2]	952.0	958.0	1,098.0	14.6
	2,177.0	2,068.0	2,285.0	10.5
Total Revenue	14,624.0	14,382.0	15,311.0	6.5
Transfer from Budget Stabilization Fund	684.0	926.0[3]	839.0	(9.4)
TOTAL GENERAL FUND REVENUE	15,308.0	15,308.0	16,150.0	5.5

[1] Percentage change between the 1990/91 revised forecast and 1991/92 estimate.
[2] For comparative purposes, the estimate and revised forecast for 1990/91 have been restated to include federal contributions for education of Native children and children of Department of National Defence personnel, which are included in General Fund revenue beginning in 1991/92. Previously, this revenue was deducted from expenditure.
[3] Includes an additional transfer of $242 million from the Budget Stabilization Fund to increase General Fund revenue to the 1990/91 budgeted level.

Other revenue, estimated at $1,729 million, is expected to increase 10.1 per cent. Medical Services Plan premium revenue is estimated to increase by $73 million reflecting population growth and the premium rate increase announced in the budget. Revenue from fees, licences and fines will rise due to volume increases and a number of rate increases during 1991/92.

Contributions from government enterprises will increase to $640 million. The forecast reflects higher contributions from the Liquor Distribution Branch and a $145 million payment from the British Columbia Hydro and Power Authority. These are partially offset by lower dividends from other Crown corporations.

Contributions from the federal government are estimated at $2,285 million, an increase of 10.5 per cent from 1990/91. Federal cash payments for Established Programs Financing are expected to increase 6.9 per cent due to adjustments for prior years. Canada Assistance Plan (CAP) and other federal recoveries are expected to increase 14.6 per cent to $1,098 million. The forecast includes British Columbia's full entitlement for CAP recoveries, as the province's successful appeal to the British Columbia Court of Appeal is being reviewed by the Supreme Court of Canada.

1991/92 General Fund Expenditure

General Fund expenditure in 1991/92 is estimated at $16,545 million, an increase of $1,237 million or 8.1 per cent from the 1990/91 estimates (see Table B4).

Ministry of Health spending is estimated to increase by $591 million to $5,400 million. Significant spending increases include $174 million for hospital programs, $285 million for the Medical Services Commission and Pharmacare programs, $76 million for continuing care services and $40 million for community and family health services.

Ministry of Education expenditure, estimated at $3,286 million, shows an increase of 7.6 per cent from the 1990/91 estimates. Contributions to school districts and for debt service and schools support are estimated to increase by $225 million.

Spending by the Ministry of Advanced Education, Training and Technology is projected to increase by $95 million to $1,237 million. Expenditure increases include $18 million for operating contributions to universities, $16 million for contributions to colleges and institutes and $54 million for access programs and enrolment increases. Spending in 1991/92 includes $20 million for the Universities Matching Program.

Ministry of Social Services and Housing expenditure is estimated at $1,984 million, an increase of $273 million from the 1990/91 estimates. Spending will increase by $233 million for Programs for Independence and by $30 million for community support services, including $7 million for day care and services for special needs children. Expenditure for direct community services will increase by $16 million.

Ministry of Transportation and Highways spending, estimated at $1,271 million, will increase $54 million. The increase includes additional contributions of $24 million for British Columbia Transit Authority and $32 million for highway maintenance and rehabilitation, offset by reductions in other areas.

Spending by the Sustainable Environment Fund Special Account (SEF) is estimated at $219 million, a decrease of $54 million from the 1990/91 estimates. Although lower than last year's estimates, environmental renewal spending in 1991/92 will be higher than actual spending in 1990/91. This provides sufficient funds for initiatives started late last year and for new initiatives in 1991/92.

Table B4
EXPENDITURE BY MINISTRY

	Estimate 1990/91[1]	Revised Forecast 1990/91[1]	Estimate 1991/92	Increase (Decrease)[2]
		($ millions)		(per cent)
Legislation	19.3	19.3	24.7	28.0
Auditor General	6.1	6.0	6.6	8.2
Conflict of Interest Commissioner	—	—	0.2	—
Ombudsman	3.1	3.1	3.2	3.2
Office of the Premier and Executive Council Operations	3.8	3.8	4.0	5.3
Advanced Education, Training and Technology	1,141.5	1,132.5	1,236.6	8.3
Agriculture, Fisheries and Food	92.3	85.9	103.0	11.6
Attorney General	260.3	260.4	269.8	3.6
Development, Trade and Tourism	134.9	132.1	130.8	(3.0)
Education[3]	3,054.2	3,027.2	3,286.1	7.6
Energy, Mines and Petroleum Resources	65.3	44.0	67.0	2.6
Environment	135.3	124.0	144.3	6.7
Finance and Corporate Relations	97.2	98.6	97.6	0.4
Forests	378.4	411.5	442.4	16.9
Health	4,809.7	4,947.7	5,400.3	12.3
Labour and Consumer Services	81.0	79.2	80.3	(0.9)
Lands and Parks	79.7	82.6	79.4	(0.4)
Municipal Affairs, Recreation and Culture	417.4	362.8	407.8	(2.3)
Native Affairs	5.5	5.2	9.6	74.5
Provincial Secretary	24.8	29.6	24.8	—
Social Services and Housing	1,710.1	1,760.1	1,983.5	16.0
Solicitor General	378.7	401.5	388.4	2.6
Transportation and Highways	1,216.9	1,184.9	1,270.9	4.4
Women's Programs and Government Services and Minister Responsible for Families	36.4	36.1	44.2	21.4
Other Appropriations:				
Management of Public Funds and Debt[4]	646.0	700.6	619.0	(4.2)
Contingencies and New Programs	49.4	39.5	58.0	17.4
Lottery Fund Special Account	150.0	110.0	120.0	(20.0)
Sustainable Environment Fund	272.7	201.1	219.1	(19.7)
Other[5]	38.0	3.7	23.4	(38.4)
TOTAL GENERAL FUND EXPENDITURE	15,308.0	15,293.0	16,545.0	8.1

[1] Restated to conform to the *1991/92 Estimates*.
[2] Percentage change between the 1990/91 estimate and the 1991/92 estimate.
[3] For comparative purposes, the estimate and revised forecast for 1990/91 have been restated to include federal contributions for education of Native children and children of Department of National Defence personnel, which are included in General Fund revenue beginning in 1991/92. Previously this revenue was deducted from expenditure.
[4] Includes interest payments to the Budget Stabilization Fund of $160 million (1990/91 estimate) and $165 million (1990/91 revised forecast). The Budget Stabilization Fund was dissolved on April 1, 1991.
[5] Includes the South Moresby Implementation-Forestry Compensation Special Account and other appropriations.

Expenditure for the forest renewal component of SEF is expected to decrease by $39 million in 1991/92, due to the late start of some silviculture activities of the forest renewal plan and lower-than-expected activity under the federal-provincial Forest Resources Development Agreements.

1991/92 Financing Plan

Gross borrowing for government purposes is estimated at $1,982 million in 1991/92. This will be partially offset by sinking fund contributions, sinking fund earnings and maturing debt totalling $720 million. As a result, net government direct debt is expected to increase by $1,262 million (see Table B2).

Gross borrowing for Crown corporations and agencies is estimated at $2,016 million. This increase will be partially offset by repayment provisions, resulting in net borrowing of $1,376 million in 1991/92. Other debt and guarantees are expected to increase by $55 million. Details of the financing plan are provided in Appendix D.

End of Year Position

At March 31, 1992, the excess of the government's financial liabilities over assets, or net deficiency, is estimated at $4,550 million, up from $3,358 million at March 31, 1991. This consists of:

- General Fund net deficiency, or accumulated deficit, of $5,069 million; and
- net equity of the Privatization Benefits Fund of $519 million.

Government direct debt is expected to total $5,988 million at March 31, 1992, an increase of $1,262 million from March 31, 1991 (see Table B5).

Table B5

BALANCE SHEET
GENERAL FUND AND SPECIAL FUNDS

As at March 31,	Estimate 1991	Revised Forecast 1991	Estimate 1992
		($ millions)	
Assets:			
Cash, investments and other assets	1,576.9	1,940.6	2,014.5
Accounts receivable and inventories	1,367.1	1,209.6	1,309.1
Fiscal agency loans	5,829.4	6,447.4	8,328.7
Total Assets	8,773.4	9,597.6	11,652.3
Liabilities and Net Equity:			
Liabilities:			
Accounts payable, accrued liabilities and amounts due to Crown corporations and agencies	1,672.1	1,493.7	1,580.9
Deferred revenue	298.8	288.0	304.7
Direct debt issued for government purposes	4,142.5	4,726.0	5,988.0
Direct debt to finance fiscal agency loans	5,829.4	6,447.4	8,328.7
	11,942.8	12,955.1	16,202.3
Net Equity (Deficiency):			
General Fund	(4,692.9)	(4,674.0)	(5,069.0)
Budget Stabilization Fund[1]	1,079.0	839.0	—
Privatization Benefits Fund	444.5	477.5	519.0
	(3,169.4)	(3,357.5)	(4,550.0)
Total Liabilities and Net Equity	8,773.4	9,597.6	11,652.3
Guaranteed Debt	6,965.1	6,117.1	5,666.3

[1] The Budget Stabilization Fund was dissolved on April 1, 1991.

APPENDIX C

Revenue Measures

C1: SUMMARY OF REVENUE MEASURES

	Effective Date	Revenue Effects 1991/92	Revenue Effects Full Year
		($ millions)	
Income Tax Act			
■ Temporary personal income tax surtax of 10 per cent introduced on annual British Columbia income tax in excess of $9,000. The surtax is reduced by a $50 non-refundable tax credit for each dependant	1991 tax year	+37.0	+32.0
■ Phase-out of the Renter's Tax Reduction delayed	1991 tax year	—	−4.0
■ General corporate tax rate increased from 14 per cent to 15 per cent	January 1, 1991	+33.0	+33.0
Medical Services Act			
■ Medical Services Plan premiums increased	July 1, 1991	+58.0	+77.0
Taxation (Rural Area) Act			
■ Tax rates reduced	January 1, 1991	−10.5	−10.5
Tobacco Tax Act			
■ Tax on tobacco increased from $1.66 to $2.00 per pack of 25 cigarettes, and from 5.1 cents per gram to 6.1 cents per gram of loose tobacco	May 22, 1991	+75.0	+90.0
Other Revenue			
■ Various fines, fees and licences increased	Various	+15.8	+28.8
■ Administrative measures (see Table C2)	Various	+0.2	+0.2
Total		+208.5	+246.5

C1: Revenue Measures: Supplementary Information

INCOME TAX ACT

Temporary Personal Income Tax Surtax Introduced

High income earners will be required to pay a 10 per cent surtax on annual British Columbia personal income tax in excess of $9,000. To diminish the impact on families, the surtax will be reduced by a $50 non-refundable tax credit for each dependant. The surtax will apply for the 1991, 1992, 1993 and 1994 taxation years.

The surtax will apply to taxpayers receiving approximately $80,000 or more in annual income. The income level at which the surtax first becomes payable is higher for taxpayers with dependants. For example, single parents with two dependent children will pay the surtax if their income is $89,800 or more. Taxpayers with a dependent spouse and two dependent children will pay the surtax if their income is $93,300 or more.

The following table shows the impact of the surtax in 1991 for a selection of different families and income levels.

Table 1
IMPACT OF SURTAX IN 1991

Income	Single Taxfiler	Single Parent with Two Children	Family of Four: Dependent Spouse and Two Children
$ 80,000	$5	—	—
$ 90,000	$154	$5	—
$100,000	$304	$154	$100
$150,000	$1,050	$901	$847
$200,000	$1,797	$1,648	$1,594
$250,000	$2,544	$2,394	$2,341

For 1991, withholdings at source will be made at the rate of 20 per cent, commencing July 1, 1991. This will provide an effective withholding rate of 10 per cent for the full year. The surtax will affect 41,000 high-income earners in 1991, representing about one out of every 50 British Columbians who file income tax returns.

Renter's Tax Reduction

The scheduled phase-out of the Renter's Tax Reduction is delayed one year. As a result, the full reduction will continue to be available for 1991.

The Renter's Tax Reduction was introduced in 1989 to assist lower income renters through a period of rapidly rising rents. Recent high levels of in-migration and low vacancy rates suggest that rent increases may not moderate as quickly as was originally expected. For this reason, the scheduled phase-out of the program is delayed.

For 1991, renters are eligible for maximum tax reductions of $225 per family member. Benefits are reduced by three per cent of net family income in excess of

$10,000, plus $4,000 for the first additional family member, $3,000 for the second, $2,000 for the third, and $1,000 for the fourth and each subsequent family member.

Under the program:

- A single taxpayer with an annual income of $10,000 is eligible for a tax reduction of $225.
- A single-income family of four with an annual income of $25,000 is eligible for a tax reduction of $696.

For 1991, the Renter's Tax Reduction is expected to provide 110,000 individuals and families who rent their accommodations with $23 million in tax relief.

Corporate Income Tax Rate Increased

The general corporate income tax rate is increased from the current 14 per cent of taxable income to 15 per cent, effective January 1, 1991. The small business income tax rate remains at nine per cent. Corporations with taxable income in excess of $200,000 per annum are affected by this increased rate.

MEDICAL SERVICES ACT

Medical Services Plan Premiums Increased

Effective July 1, 1991, monthly Medical Services Plan premiums will be increased to $35 for singles, $62 for couples and $70 for families of three or more. Currently, monthly rates are $31, $55 and $62 respectively.

In recent years, Medical Services Plan premium rates have been set to generate revenues equal to 50 per cent of physician billings and 100 per cent of supplementary medical benefits. However, premium rates have not been increased since April 1, 1989, and revenues now cover only about 90 per cent of the above costs.

- This premium rate increase will enable the premium revenue target to be met.

The Medical Services Plan premium assistance program will continue to reduce premium liabilities for lower income individuals and families.

TAXATION (RURAL AREA) ACT

Rural Area Property Tax Rates Reduced for 1991

The rural area property tax rates are adjusted for 1991 as shown in the following table.

Table 2

RURAL AREA PROPERTY TAX RATES

Property Class	1990 Tax Rates	1991 Tax Rates
	(per $1,000 of assessed value)	
Residential	$2.3	$1.75
Utilities	4.6	4.0
Unmanaged Forest Land	4.6	4.5
Major Industry	4.6	4.5
Light Industry	4.6	4.0
Business and Other	4.6	4.0
Managed Forest Land	0.5	0.5
Recreational Property/Non-Profit Organizations	2.3	2.0
Farm	0.5	0.5

The 1991 rates are set in accordance with a government commitment not to increase total rural area property tax revenue in 1991 from properties on the 1990 tax roll. Because assessed values for 1991 tax purposes have increased in the rural areas, the province has reduced tax rates from 1990 levels to fulfil this commitment to revenue neutrality.

Generally, the 1991 tax rates are set so as to be revenue neutral within each property class. The exceptions are the tax rates for the light industry, business, and recreational/non-profit classes, which are linked by way of a 2:2:1 ratio, respectively. In this case, the rates are calculated so as to be revenue neutral across the three classes.

The rural area property tax is levied on properties outside of municipalities. The tax helps cover the cost of services the province provides to rural areas, such as roads and policing.

TOBACCO TAX ACT

Effective midnight tonight, the tax rate on cigarettes is increased from $1.66 to $2.00 per package of 25 cigarettes. The tax rate on loose tobacco will also increase, from 5.1 cents per gram to 6.1 cents per gram.

The tax rates will continue to be adjusted semi-annually, on March 1 and September 1, to reflect the changes in the Vancouver consumer price index for cigarettes. The cigarette indexing formula is adjusted to achieve an average 1991/92 rate close to the average rate of all other provinces. The loose tobacco indexing formula is also adjusted proportionately.

OTHER REVENUE

A number of fees, licences and fines will be increased during the fiscal year. Fees that were adjusted on May 1, 1991 include ambulance service fees, Vital Statistics Branch fees, sewage disposal inspection fees and fees charged by the British Columbia Securities Commission.

C2: SUMMARY OF ADMINISTRATIVE MEASURES

	Effective Date
Logging Tax Act	
■ Proceeds from the sale of standing timber are made taxable where these proceeds are received over several years	January 1, 1991*
Property Purchase Tax Act	
■ Exemption provided for transfers of qualifying land that is to be protected, preserved, conserved or held in its natural state	May 22, 1991
■ Intent of high-ratio financing tax relief program clarified	May 22, 1991
■ Exemption for transfers of principal residences to related individuals amended	July 31, 1991
■ Definition of family farm corporation clarified	May 22, 1991
■ Existing exemption for transfers to Public Trustee and trust companies, and transfers back, limited to individuals	May 22, 1991
■ Amendment introduced to require the fair market value of all property rights to be taken into account when determining the tax payable on fee simple transfers	April 29, 1991

* Effective for taxation years beginning on or after this date.

C2: Administrative Measures: Supplementary Information

LOGGING TAX ACT

The current definition of logging income is amended to include the proceeds from the sale of standing timber, where these proceeds are received over several years. The amendments harmonize with agreed-upon changes to the federal and provincial income tax acts.

Logging tax liabilities are completely offset by matching credits under the federal and provincial income tax acts. As a result, the effect of this change is to transfer revenue from the federal to the provincial government. There is no increase in the tax burden of firms with logging income.

This change is effective for taxation years beginning on or after January 1, 1991.

PROPERTY PURCHASE TAX

New Environmental Exemption Introduced

A new exemption is introduced for transfers of land which will be protected, preserved, conserved or kept in its natural state. To qualify for the exemption, a restrictive covenant, approved by the Lieutenant Governor in Council and in favour of the Crown, must be registered on the title to the property in the land title system. The covenant may not be amended or removed without the approval of the Lieutenant Governor in Council.

If the covenant is removed, property purchase tax will be payable on the fair market value of the land as calculated on the date the covenant is removed.

The exemption is effective May 22, 1991. However, purchasers who have purchased land since March 23, 1987, and who now wish to register such a covenant on their land, will be eligible to apply for a refund of property purchase tax paid.

Intent of High-Ratio Financing Tax Relief Program Clarified

Two amendments to the property purchase tax are introduced to ensure that high-ratio financing tax relief only benefits home buyers in need, and that eligible home buyers are not disqualified from the program through no fault of their own.

The high-ratio financing tax relief program is intended to assist purchasers of moderately priced homes who require high-ratio financing to purchase a home — that is, home buyers in need. The amount of tax relief is equal to four per cent of the difference between the amount of registered financing and 75 per cent of the fair market value of the home.

In response to the current competitive mortgage market, innovative mortgage financing arrangements are now being developed and introduced. For example, some financial institutions are now providing mortgages equal to the full purchase price of a home, even though only a portion of the funds is actually used to purchase the home.

The result is that in some cases the High-Ratio Financing Tax Relief Program has become available to taxpayers who are not in need of relief. The amendment, effective May 22, 1991, clarifies that only the portion of the registered financing

which is actually applied to the home purchase may be used to qualify for tax relief.

The requirement that home buyers register their transfer and mortgage documents concurrently in the land title system in order to qualify for tax relief is also being amended effective May 22, 1991. This amendment allows the Administrator of the tax to provide tax relief to purchasers who, through no fault of their own, fail to qualify for relief only because the documents were not registered concurrently.

Exemption for Transfers of Principal Residences Amended

The Act currently provides an exemption for transfers of principal residences between related individuals provided the property transferred does not exceed 2.03 hectares in area. British Columbians whose principal residences are situated on parcels of land larger than 2.03 hectares are not currently eligible for the exemption.

Effective July 31, 1991, the Act will be amended to allow all British Columbians to transfer to related individuals, exempt from the property purchase tax, the value of the principal residence and other residential improvements, plus the value of up to 0.5 hectares of land calculated as a proportion of the total value of the land.

Definition of Family Farm Corporation Clarified

The Act currently exempts the transfer of a family farm between a family farm corporation and its shareholders. The definition of family farm corporation, however, implies that the corporation must have more than one shareholder in order to qualify for the exemption. Effective May 22, 1991, the definition is amended to clarify that family farm corporations with single shareholders are also eligible for the exemption.

Exemption for Transfers of Land to the Public Trustee, and Transfers Back, Limited to Individuals

An exemption is currently provided for transfers of land to the Public Trustee, or a trustee authorized to carry on trust business under the *Financial Institutions Act*, provided the administration of the trust is for the sole benefit of the settlor and on the termination of the trust the land reverts to the settlor or the settlor's estate. Transfers from the trustee back to the settlor or the settlor's estate are also exempt from the tax.

The intent of this provision is to exempt transfers of land from mentally incompetent individuals to trustees, and from trustees back to the individual or the individual's estate. Recently, however, it has become apparent that the exemption may also be used by corporations to transfer land without the payment of property purchase tax. Effective May 22, 1991, the exemption is amended to restore its original intent.

Calculation of Tax Payable on Fee Simple Transfers

Effective April 29, 1991, a provision is introduced to require both the legal and beneficial ownership of property to be taken into account when calculating the tax payable on fee simple transfers of land. The amendment is introduced to preserve the original intent of the Act in response to a recent court decision.

APPENDIX D

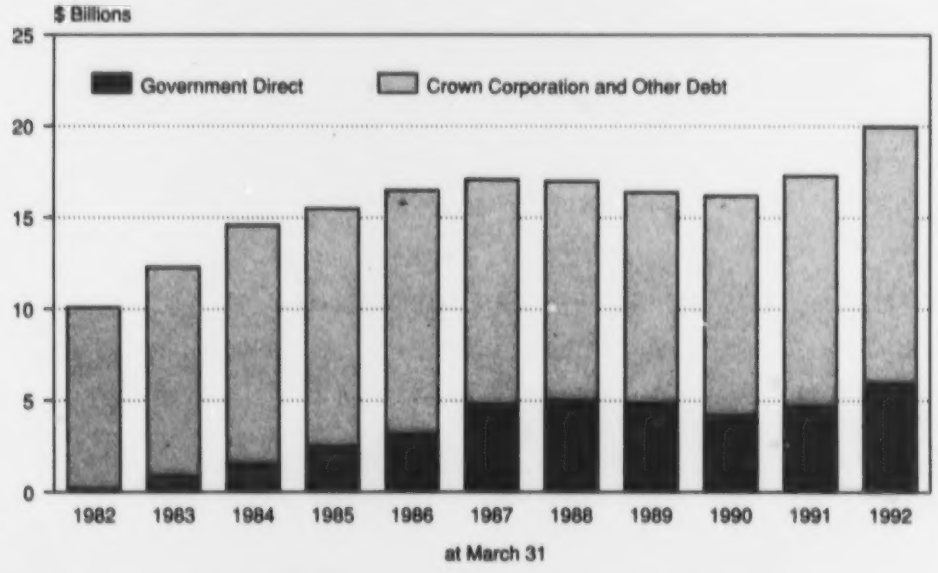
Provincial Government and Crown Corporation Financing

OVERVIEW

The provincial government and its Crown corporations and agencies incur debt to finance operations and capital expenditure. During 1990/91, this debt increased by $1 billion to $16.5 billion. In 1991/92, government and Crown corporation debt is expected to increase by $2.6 billion to total $19.1 billion at year end. Almost one half of this increase is for direct government purpose borrowing with the remainder for Crown corporations and agencies. (See table D1.)

The increase in the provincial government's direct debt in 1990/91 was due to lower cash balances at the beginning of the year and lower growth in revenues resulting from the economic slowdown. Consequently, the provincial government's direct debt was higher than forecast in last year's budget, but still 5.8 per cent lower than its peak of $5 billion at March 31, 1988.

CHART D1
DIRECT AND GUARANTEED DEBT



Total provincial direct and guaranteed debt, which includes government, Crown corporation and other guaranteed debt, has declined significantly from its peak of 30.3 per cent of gross domestic product (GDP) at March 31, 1986. At March 31, 1992, this debt is expected to equal 23.5 per cent of GDP.

The provincial government's net direct debt as a percentage of GDP is projected at 7.0 per cent at March 31, 1992 — the lowest in Canada. The improvement in the provincial government's debt profile and fiscal position has been acknowledged by every major bond rating agency in North America. During 1990, the four major agencies confirmed the provincial government's credit rating at their second highest level.

FINANCING PROCESS

Provincial government and Crown corporation debt is incurred by one of three financing methods:

- debt issued by the government for its own purposes;
- fiscal agency debt incurred in the name of the government with the proceeds reloaned to Crown corporations and agencies; and
- debt incurred by Crown corporations and others with a provincial government guarantee of the payment of principal, premium and interest.

Under its fiscal agency program, government acts as a fiscal agent by borrowing directly in the financial markets and relending the funds to Crown corporations and agencies. This program provides lower cost financing to Crown corporations because of the province's strong credit rating and reputation in financial markets. As well, a single borrower offering larger debt issues is able to borrow at lower rates. Over the past eight years, most Crown corporation borrowing has been done through the fiscal agency program.

Regardless of the borrowing method used, repayment of borrowings and financing costs remain the responsibility of the Crown corporation or agency. However, in certain cases the provincial government provides a contribution to pay for all or part of the debt service costs of an organization.

In order to provide for orderly repayment of debt, the provincial government and Crown corporations establish sinking funds for essentially all debt with a term of more than five years. At March 31, 1991, sinking fund investments totalled $5.7 billion. Total debt with a term of one year or longer is 70 per cent funded based on assumed earnings of eight per cent on existing sinking fund balances and future sinking fund instalments.

COMPOSITION OF 1991/92 BORROWING AND DEBT

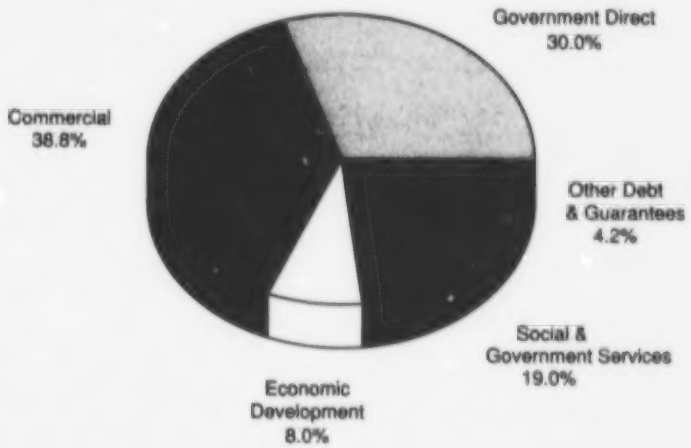
Debt of the provincial public sector is issued for the following purposes:

- **Provincial government direct debt** to fund government operations and capital expenditure.
- **Commercial Crown corporations,** which include British Columbia Hydro and Power Authority and British Columbia Railway Company. These corporations generate revenue from the sale of services at commercial rates and pay their own operating expenses, including debt service charges.
- **Economic development Crown corporations and agencies** including the British Columbia Ferry Corporation and British Columbia Transit. These corporations sell services directly to the public, but their revenues may not cover their operating expenses and debt servicing payments. Because these corporations and agencies provide economic benefits to the province, the government provides grants or other forms of assistance.

- **Social and government service capital expenditure**, largely for the construction of hospitals, schools and post-secondary educational institutions. Debt service requirements are met through provincial grants or rental payments and, for hospitals, partly through local property taxes.
- **Other debt and guarantees**. The provincial government provides loan guarantees to private sector firms and individuals through various government programs including student financial assistance, loans to agricultural producers and guarantees issued under the British Columbia Home Mortgage Assistance Program. In addition, the provincial government offers fiscal agency financing to other public bodies such as local governments and the three universities.

Chart D2 gives a breakdown by category of provincial direct and guaranteed debt outstanding at March 31, 1992.

CHART D2
DIRECT AND GUARANTEED DEBT
AT MARCH 31, 1992



Total: $19,983 million

The government expects that its gross borrowing requirements for provincial government purposes will total $2 billion in 1991/92. This includes borrowing to refinance debt maturing in 1991/92 and to cover the deficit and other financing transactions. Net provincial government direct debt will increase by $1.3 billion and at March 31, 1992, will account for 30 per cent of total direct and guaranteed debt outstanding.

Social and government service Crown corporations account for the largest share of Crown corporation borrowing in 1991/92. During the year this debt is expected to increase by $781 million to $3.8 billion at March 31, 1992. Most of this borrowing will be used to finance construction of hospitals, schools and post-secondary educational institutions.

The 1991/92 financing plan for the government and its Crown corporations is outlined in the following table. Other debt and guarantees are shown in Table D2.

Table D1
GOVERNMENT, CROWN CORPORATION AND AGENCIES FINANCING PLAN

	Net Debt Outstanding at March 31, 1990	1990/91 Transactions — New Borrowing[1]	1990/91 Transactions — Retirement Provision[2]	Forecast Net Debt Outstanding at March 31, 1991	1991/92 Transactions — New Borrowing[1]	1991/92 Transactions — Retirement Provision[2]	Forecast Net Debt Outstanding at March 31, 1992
	($ millions)						
PURPOSES:							
Provincial Government Direct	4,208.6	2,041.6	1,524.2	4,726.0	1,982.3	720.3	5,988.0
Commercial Crown Corporations and Agencies:							
British Columbia Hydro and Power Authority	7,076.3	996.0	865.0	7,207.3	612.0	285.0	7,534.3
British Columbia Railway Company	258.3	29.9	10.5	277.7	(15.0)	33.2	229.5
	7,334.6	1,025.9	875.5	7,485.0	597.0	318.2	7,763.8
Economic Development Crown Corporations and Agencies:							
British Columbia Ferry Corporation	67.6	—	7.7	59.9	190.0	8.2	241.7
British Columbia Transit	1,176.8	84.4	31.2	1,230.0	153.6	32.9	1,350.7
Other	0.7	—	—	0.7	13.5	—	14.2
	1,245.1	84.4	38.9	1,290.6	357.1	41.1	1,606.6
Social and Government Services Crown Corporations and Agencies:							
British Columbia Assessment Authority	4.3	2.1	—	6.4	0.3	—	6.7
British Columbia Buildings Corporation	504.2	42.8	32.7	514.3	100.0	54.7	559.6
British Columbia Educational Institutions Capital Financing Authority	425.2	93.3	38.2	480.3	241.0	31.4	689.9
British Columbia Regional Hospital Districts Financing Authority	788.7	182.6	58.4	912.9	246.6	74.9	1,084.6
British Columbia School Districts Capital Financing Authority	794.2	223.5	118.4	899.3	450.0	104.5	1,244.8
Capital Project Certificate of Approval Program[3]	196.2	(31.3)	—	164.9	—	—	164.9
British Columbia Systems Corporation	36.2	(0.4)	1.7	34.1	24.0	15.6	42.5
Other	55.2	—	55.2	—	—	—	—
	2,804.2	512.6	304.6	3,012.2	1,061.9	281.1	3,793.0
Less Amounts Held as Investments/ Cash Held for Relending by General Fund	61.1	—	55.8	5.3	—	0.5	4.8
GOVERNMENT, CROWN CORPORATION AND AGENCIES DEBT TOTAL	15,531.4	3,664.5	2,687.4	16,508.5	3,998.3	1,360.2	19,146.6
SOURCES:							
Canada Pension Plan Investment Fund	5,090.1	309.5	125.1	5,274.5	285.5	131.2	5,428.8
Trusteed Funds Private Issues Public Issues	15,157.0	3,355.0	1,562.3	16,949.7	3,712.8	1,253.6	19,408.9
Total Before Sinking Funds	20,247.1	3,664.5	1,687.4	22,224.2	3,998.3	1,384.8	24,837.7
Sinking Funds	4,715.7	—	1,000.0	5,715.7	—	(24.6)	5,691.1
TOTAL SOURCES OF FUNDS	15,531.4	3,664.5	2,687.4	16,508.5	3,998.3	1,360.2	19,146.6

[1] Gross new long-term borrowing plus net change in short-term debt.
[2] Sinking fund contributions, sinking fund interest earnings and net maturities of long-term debt (after deduction of sinking fund balances for maturing issues).
[3] Short-term borrowings obtained by financing authorities under the Certificate of Approval Program, are used as interim financing for capital construction and are eventually converted to long-term debt.

Table D2
OTHER DEBT AND GUARANTEES

	Net Debt Outstanding at March 31, 1990	Forecast Net Debt Outstanding at March 31, 1991	Forecast Net Debt Outstanding at March 31, 1992
	($ millions)		
Fiscal Agency Borrowing	100.5	138.4	173.3
Guarantees	577.8[1]	643.5	663.1
Total Other Debt and Guarantees	678.3	781.9	836.4

[1] Restated to include British Columbia Second Mortgage Program guarantees and loan guarantee provisions.

SOURCES OF FUNDS

In order to minimize financing costs, the government raises funds through a variety of instruments, depending upon financial market conditions and subject to an appropriate debt portfolio mix. The terms of the instruments are selected to dovetail with existing debt maturities and to limit the risks associated with interest rate fluctuations.

Funds borrowed to date have come from a variety of sources, including public financial markets, the Canada Pension Plan Investment Fund, private institutional lenders and provincial trusteed funds.

Most of the provincial government's funds have been obtained through medium and long-term debt issues in public capital markets in Canada, the United States and Europe, in either Canadian or U.S. dollars. To a lesser extent, private placements in North America, Europe and Japan have been a source of medium and long-term funds. As in the case of public issues, the ultimate liabilities of all private placements are payable in either Canadian or U.S. dollars.

Since 1984, the province has moved away from U.S. dollar borrowings. This reflects a change in policy designed to reduce foreign currency exposure, largely the result of significant U.S. dollar borrowings in the 1970s for hydro projects. In recent years the government, in conjunction with B.C. Hydro, has used a variety of financial techniques to reduce U.S. dollar exposure from a peak of $4 billion in 1985 to $1.5 billion at March 31, 1991.

In December 1990, the provincial government made the required filings with regulators to enable it to borrow in the United States. Should it be cost effective to use this market, hedging strategies would be reviewed carefully and appropriate policies would be adopted to address the risks associated with unfavourable currency movements.

Borrowing from the Canada Pension Plan Investment Fund has been used primarily to finance social capital projects such as schools and hospitals. Provincial trusteed funds, which include provincial public sector pension funds and provincially administered sinking funds, at one time provided an important source of funds for Crown corporations. However, in 1990/91 less than one per cent of borrowings came from trusteed funds.

Short-term debt instruments have become an important source of funds for both the provincial government and its agencies. A weekly treasury bill auction raises funds for government purposes and commercial paper is issued in Canada and the United States for periods ranging from one day to one year. The size of the short-term debt portfolio fluctuates from one year to the next, reflecting the interest rate cycle and cash requirements.

CONCLUSION

In the early 1980s, the international recession seriously weakened the province's fiscal position and caused net debt of the provincial government and its Crown corporations and agencies to increase sharply. At March 31, 1986, direct and guaranteed net debt peaked at over 30 per cent of provincial GDP. Its estimated level of 23.5 per cent of GDP at March 31, 1992, reflects the subsequent improvement in the province's fiscal position.

In March 1991, the government enacted the *Taxpayer Protection Act*, which requires the Minister of Finance and Corporate Relations to table a Debt Reduction Plan each year. Details are provided in Appendix F.

APPENDIX E

Balanced Budget Plan

INTRODUCTION

In the 1990 Budget Speech, the Minister of Finance and Corporate Relations said:

> *"Targets for revenue and expenditure growth, related to levels of activity in the economy, will be established. This will be central to ensuring that government is affordable for taxpayers."*

The *Taxpayer Protection Act*, passed in 1991, puts this commitment into law. It requires the Minister of Finance and Corporate Relations to table with the Estimates each year a Balanced Budget Plan.

OVERVIEW

In the 1990 Budget, the need for multi-year budgeting was recognized. It was argued that this would allow for better program planning and avoid the stop-start funding that is characteristic of an annual budget focus. In addition, a multi-year budget plan allows the government more flexibility in addressing cyclical swings in revenue and expenditure.

The *Taxpayer Protection Act* stipulates that, in the Balanced Budget Plan:

- total expenditures must not exceed revenues over the five-year period covered by the Plan; and
- expenditures, in the first year of the Plan, cannot grow faster than the average annual rate of economic growth over the most recent five years.

These budget controls will ensure that the government's budget is balanced over a typical economic cycle and that the size of government relative to the provincial economy will not increase.

EXPENDITURE CAP

The *Act* limits spending growth to growth in the economy over the five years ending in the calendar year in which a Balanced Budget Plan is tabled. This is defined as the average annual increase in nominal gross domestic product (GDP) over this period.

This formula will allow government spending to grow faster than the economy in downturns, but requires spending to grow more slowly than the economy in upswings.

To provide certainty during the budget planning process, the expenditure cap will be set by November 15 of each year. The cap will be based on three years of actual GDP data, an estimate for the current year and the Ministry of Finance and Corporate Relations' forecast for the following year.

The expenditure cap is 8.1 per cent for the 1991/92 fiscal year.

The expenditure estimate for 1990/91 has been restated to reflect an accounting policy change which increased the 1990/91 revenue and expenditure estimates by

$48 million. The 1991/92 expenditure cap is applied to the revised expenditure estimate of $15,308 million, resulting in an expenditure cap of $16,545 million in 1991/92.

ECONOMIC ASSUMPTIONS

Economic growth slowed significantly in British Columbia during 1990 and a mild recession may have started late in the year. A recovery in the economy is expected in the second half of 1991 due to declining interest rates, continued high levels of in-migration and the resumption of economic growth in the rest of North America. Over the next four years, improved export market conditions will contribute to increased output, employment and investment growth.

Table E1 presents the forecast for inflation, population and nominal GDP for the 1991 to 1995 period. These factors will have a major influence on government revenue and expenditure because:

- revenue expands and contracts along with the economy; and
- cost inflation and population growth cause spending to increase.

Table E1
ECONOMIC ASSUMPTIONS — THE BALANCED BUDGET PLAN

	1991	1992	1993	1994	1995
Gross Domestic Product					
($ millions)	85,012	91,419	97,930	103,995	110,756
Percentage change	4.8	7.5	7.1	6.2	6.5
Consumer Price Index					
(1986 = 100)	124.9	129.5	134.2	138.9	143.6
Percentage change	6.2	3.7	3.6	3.5	3.4
Population (thousands)	3,208	3,278	3,344	3,411	3,472
Percentage change	2.6	2.2	2.0	2.0	1.8

Source: Ministry of Finance and Corporate Relations.

FIVE-YEAR FISCAL PLAN

As required by the *Taxpayer Protection Act*, Table E2 provides a forecast of General Fund revenue, expenditure and surplus/deficit for each of the five years covered by the Balanced Budget Plan.

The forecast assumes that total revenue, excluding Budget Stabilization Fund transactions, remains constant at its current level of 18 per cent of nominal GDP in each of the five years covered by the plan.

An element of risk in the 1991/92 revenue forecast arises because it includes British Columbia's full entitlement for Canada Assistance Plan (CAP) transfers. British Columbia's successful appeal to the British Columbia Court of Appeal is being reviewed by the Supreme Court of Canada. The government may have to raise taxes if British Columbia's court case is overturned or if the federal government takes other steps to reduce its CAP contributions in future years.

Given this revenue forecast, government spending growth will have to slow over the final four years of the plan in order to balance the budget over the five-year period. In the event that revenues increase faster than forecast, the expenditure cap would prevent such a windfall from being spent all at once.

Table E2
THE BALANCED BUDGET PLAN

	1990/91[1]	1991/92	1992/93	1993/94	1994/95	1995/96	Accumulated Surplus (Deficit) 1991/92–1995/96
	($ billions)						
Total Revenue	14.6	15.3	16.5	17.6	18.7	20.0	
Transfer from the Budget Stabilization Fund	0.7	0.8	—	—	—	—	
General Fund Revenue	15.3	16.1	16.5	17.6	18.7	20.0	
General Fund Expenditure	15.3	16.5	17.3	17.8	18.4	18.9	
Surplus/(Deficit)	—	(0.4)	(0.8)	(0.2)	0.3	1.1	0
General Fund Revenue as a percentage of GDP	18.9	19.0	18.0	18.0	18.0	18.0	
General Fund Expenditure as a percentage of GDP	18.9	19.5	18.9	18.2	17.7	17.0	

[1] Restated to conform to the 1991/92 Estimates.

It is likely that the 1991/92 fiscal year corresponds to the low point in the current economic cycle. Consequently, balancing the budget in 1991/92 would have required major cuts in the areas where government spends most of its money — health, education and social assistance. The government rejected this option because unemployment was rising, and instead chose to budget for a small deficit.

Over the medium term, the combination of the balanced budget requirement and the expenditure growth limit will ensure that, as economic and revenue growth increase, government spending does not increase relative to the size of the economy. In fact, expenditure relative to GDP under this Balanced Budget Plan is projected to decline from 19.5 per cent in 1991/92 to 17.0 per cent in 1995/96.

The deficits expected in the first three years of the current plan require additional borrowing to finance government operations. However, the surpluses projected in the last two years of the plan will offset these deficits and reduce the debt accumulated during the first three years.

BALANCED BUDGET PROGRESS REPORT

The *Taxpayer Protection Act* requires that every year beginning in 1992, a Balanced Budget Progress Report be prepared and presented to the Legislative Assembly. This report will provide information to the Legislative Assembly and the public on the government's progress in achieving the fiscal targets contained in the Balanced Budget Plan. This "report card" will include the surplus/deficit for the year just ending and the accumulated surplus/deficit since March 31, 1991.

APPENDIX F

Debt Reduction Plan

INTRODUCTION

The *Taxpayer Protection Act*, passed in 1991, requires the Minister of Finance and Corporate Relations to prepare a Debt Reduction Plan to reduce provincial debt and to table it with the Estimates. For the purposes of this plan, provincial debt is defined as direct debt for government purposes. The Debt Reduction Plan is based on the Balanced Budget Plan, which has also been tabled with the Estimates (see Appendix E).

OVERVIEW

In recent years, the government has used budget surpluses to reduce direct debt for government purposes. As a result, this debt fell from $5.0 billion at March 31, 1988, to $4.2 billion at March 31, 1990. It increased to $4.7 billion at March 31, 1991, equivalent to 5.8 per cent of provincial gross domestic product (GDP).

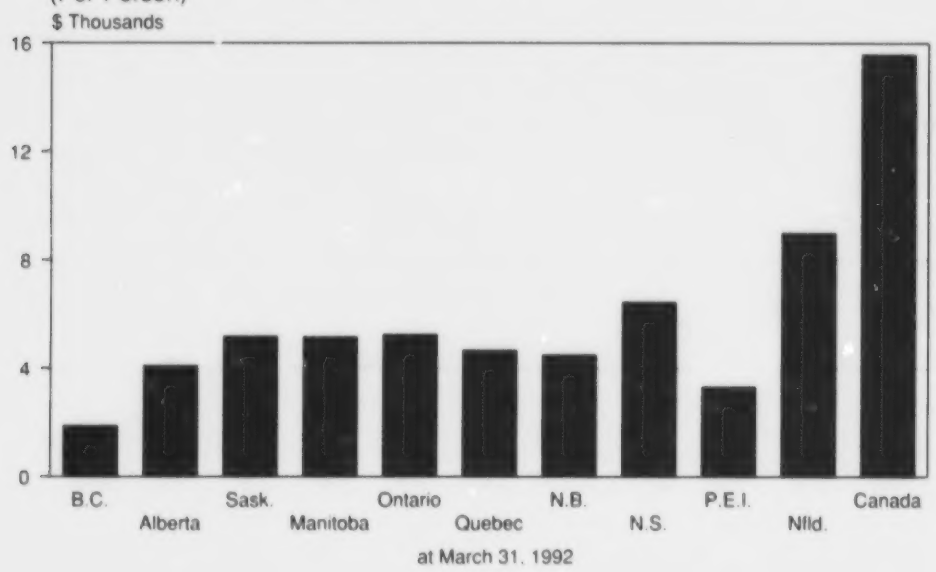
The improvement in the government's debt situation has been recognized by the four major credit rating agencies. In 1989, all four agencies raised the government's credit rating to their second-highest rating, which the province still retains.

The government's fiscal performance has also been recognized by investors in the market place. Despite the fact that the Province of Ontario has traditionally been viewed as the "benchmark" provincial credit, British Columbia now issues debt at a lower cost than Ontario, reflecting investor confidence about the province's fiscal management and economic future.

FIVE-YEAR PLAN

The Debt Reduction Plan is based on the Balanced Budget Plan. Recent reductions in federal transfer payments to the province will place significant pressure on the province's fiscal position over the medium term. In 1991/92, increased borrowing requirements will increase government's net debt outstanding to $5,988 million at March 31, 1992. However, even with this increase, Chart F1 shows that British Columbia's direct government purpose debt per person is the lowest in Canada.

CHART F1
DIRECT DEBT FOR GOVERNMENT PURPOSES
(Per Person)

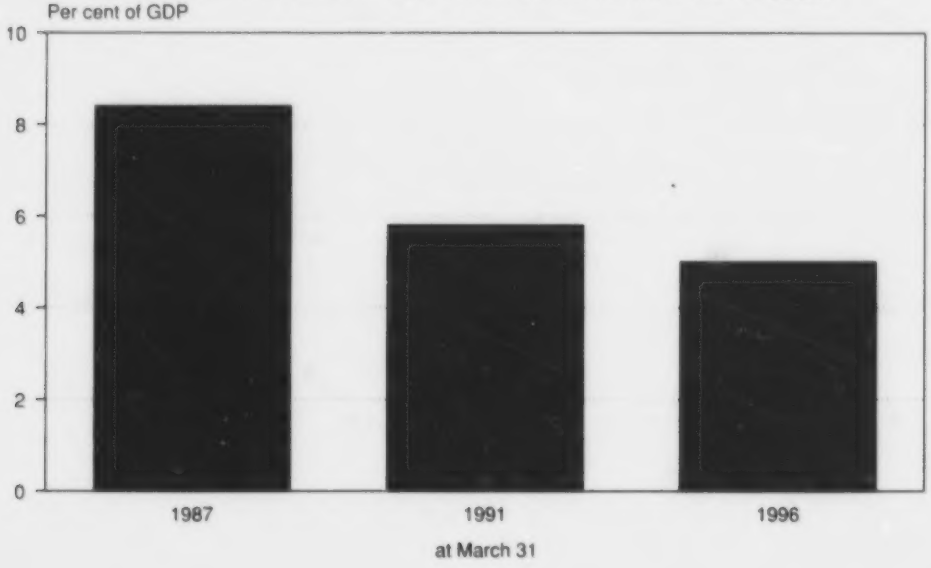


Source: Provincial Budgets and Public Accounts.

The *Taxpayer Protection Act* requires the government to balance its budget over a five-year period. As a result, government spending will grow more slowly, and deficits during the first three years will be offset by surpluses during the last two.

As a result, under the Debt Reduction Plan, debt for government purposes is projected to total $55.6 billion at March 31, 1996. In relation to GDP, Chart F2 shows that government's debt will have declined from 8.4 per cent at March 31, 1987, to 5.0 per cent at March 31, 1996.

CHART F2
BRITISH COLUMBIA DIRECT DEBT FOR GOVERNMENT PURPOSES



Over the next five years, the government will be reviewing a number of revenue sources as potential vehicles for further reducing debt. This review will focus on earmarking non-recurring sources of revenue such as prior-year adjustments of income tax collections received from the federal government, proceeds from asset sales, and repayments of loans to businesses.

In order to ease the burden of repaying its debt issues, the government establishes sinking funds for all debt issues with a term of five years or longer. Of the total $5.7 billion in sinking fund investments held by the province at March 31, 1991, approximately $350 million were related to government purpose long-term borrowing. By continuing to follow its sinking fund policy, the government estimates that sufficient sinking funds will be available to repay 70 per cent of total direct and guaranteed debt of the province at maturity.

The government will also continue to use the wide range of financial instruments available in the marketplace to manage interest rate and currency risks in order to limit debt servicing costs.

The ongoing use of a weekly Treasury bill program has also proved to be successful. The program has allowed the province to borrow at levels close to, and sometimes below, that of the federal government. This program has enabled the province to take advantage of the recent declines in short-term interest rates, which have fallen from a peak of 14 per cent in 1990 to the current level of just over 9 per cent.

By using these debt management strategies, the government is able to reduce its costs of borrowing and thus reduce its financial requirements.

APPENDIX G

Provincial Property Taxes

THE PROPERTY TAX SYSTEM: ASSESSMENTS, LEVIES AND COLLECTIONS

Taxes on property in British Columbia are generally based on a property's assessed value. The underlying premise is that a property's value is a measure of the owner's ability and obligation to pay for services provided by the community.

This taxation system has three components.

The Assessment of Property Values

Property classifications and assessments are carried out by the British Columbia Assessment Authority, an agency of the provincial government, and are intended to reflect actual market values. Every year the Assessment Authority prepares a roll containing assessed values for every taxable property in the province. These values are the basis upon which taxation authorities levy property taxes.

The Levying of Property Taxes

In British Columbia, property taxes are levied by the province, by municipalities, and by regional, hospital, and improvement districts under a variety of statutes. School boards can also levy a property tax for school purposes if the levy is approved by the school district's voters in a referendum. Property owners also pay small levies to cover the costs of the British Columbia Assessment Authority and the Municipal Finance Authority.

The tax bill for an individual property is determined mainly by three factors: the revenue requirements of local governments, based on planned spending; revenue targets set by the province; and the assessed value of the property relative to the value of other properties in the same area.

The Collection of Property Taxes

In organized areas, all property taxes are collected by municipalities, while in rural areas, they are collected by the provincial Surveyor of Taxes. Notices of taxes owing for a calendar year are sent to property owners in May and June, and taxes are generally due in early July. Municipalities and the Surveyor of Taxes also administer the Home Owner Grant Program, which provides a credit mainly against school property taxes.

PROVINCIAL TAXES

The province levies two types of property taxes: school taxes and rural area taxes. School taxes are levied under the *School Act* and, after being collected by municipalities and the Surveyor of Taxes, are paid into the province's General Fund to help cover public schools costs. Rural area taxes are raised under the *Taxation (Rural Area) Act* and help cover the cost of providing services, mainly roads and policing, in rural areas. In most areas, revenues from this source are less than the cost of providing these services.

The province started imposing non-residential (largely business) school taxes in 1982 and residential school taxes in 1990. Previously, these taxes were levied by school boards.

A separate school tax rate has been set for residential properties in each school district, while for non-residential ones, a province-wide rate has been set for each property class. Residential school tax rates are set on a school district basis because this reflects past practice and because house values vary markedly from one part of the province to another. With respect to rural area tax rates, one province-wide rate is set for each of the nine property classes.

Provincial property tax revenues for 1990 and 1991 are shown in Table G1. The province will levy $913 million in property taxes in 1991, a decline of 1.9 per cent from the previous year. A further $1.3 billion will be levied by local governments, mainly municipalities.

Table G1
PROVINCIAL PROPERTY TAX REVENUE

	1990		1991[1]	
	($ millions)			
Net Residential School Property Taxes		340.0		298.0
Residential School Property Taxes	750.0		770.0	
Home Owner Grants	(410.0)		(472.0)	
Non-residential School Property Taxes		541.0		565.1
Residential Rural Area Property Taxes		24.6		25.0
Non-residential Rural Area Property Taxes		24.6		24.5
TOTAL		930.2		912.6

[1] Forecast

THE 1991 PROVINCIAL PROPERTY TAX STRATEGY

The 1991 provincial property tax strategy is shaped by three considerations: property owner concern about past property tax increases; slower economic growth; and assessed value shifts.

The elements of the 1991 provincial property tax strategy are as follows:

1. *In 1991, the province will raise no more property tax revenue from properties on the 1990 tax roll than was raised in 1990.*

   This means any increase in provincial property tax revenues will be attributable to new construction and developments and the phase-out of the partnership program for business and industry property tax payers.

   Residential school and rural area tax rates are revenue neutral within the residential class. That is, the average school and rural area tax bill in 1991 (before the Home Owner Grant) for properties that were also on the 1990 tax roll will be the same as in 1990. Tax bills for individual properties, however, will rise or fall according to changes in relative assessed values. Non-residential school and rural area tax rates are revenue neutral across the non-residential classes, but not necessarily within each class.

2. *The Home Owner Grant supplement will be further enhanced.*

   The Home Owner Grant has two components: a basic grant, offered since 1957, and a supplement, introduced in 1990. The basic grant is up to $700 for seniors, the disabled and recipients of war veterans allowances, and up to $430 for other homeowners. In 1990, the supplement equalled 25 per cent of school taxes in excess of the maximum basic grant. In 1991, the supplement will increase to 50 per cent of these excess taxes. The 1991 enhancement will cost $50 million in foregone revenues.

3. *A new residential school property tax framework has been approved and will be phased in over three years starting in 1991.*

   The new framework is designed to moderate the effect of differences in average assessed values by school district on tax rates and distribute the school tax burden in a way that balances the interests of residential property owners throughout the province.

4. *The province has called upon municipalities to limit property taxes in 1991 to 1990 levels, except in defined circumstances.*

   The Minister of Municipal Affairs, Recreation and Culture made his appeal to municipalities in a press release of March 5, 1991, and in letters sent to mayors and regional district chairpersons in early March 1991.

   Municipalities have a crucial role to play — provincial efforts to control property tax increases would be of little benefit to property owners if municipalities were to respond by increasing their own taxes.

5. *The province has given municipalities tools for minimizing and phasing in tax shifts resulting from changes in relative assessed values.*

   Municipalities can set flat taxes and separate tax rates for land and improvements, and the City of Vancouver has been given emergency powers to deal with assessment shifts affecting Vancouver residential and business properties.

As a result of these measures, in 1991, most homeowners will see a reduction to their provincial taxes after application of the Home Owner Grant. Furthermore, if local governments hold the line on tax increases, most homeowners may also see a reduction to their overall property taxes owing after the Home Owner Grant.

Owners of other classes of property should have, on average, no increase to their provincial property taxes, and, again if local governments hold the line, only small increases to their local government property taxes. Taxes on individual properties will, however, continue to be subject to the redistributive effect of changes in assessed values.

The New Residential School Tax Framework

A new framework for setting provincial residential school tax rates is being introduced in 1991. It is the first designed since the tax became a provincial revenue source, and it moderates the effect on school taxes of dramatic differences in average assessed values from one school district to another. When the province first set residential school tax rates in 1990, the rates were set using a transition formula based on the pre-1990 school district funding formula, with an eight per cent cap on rate increases. Before that, rates were set by school boards.

Under the new framework, a residential property tax rate for each school district will be calculated in five steps:

1. The residential school tax revenue target is set by the Minister of Finance and Corporate Relations ($770 million in 1991).
2. Half the total provincial amount to be raised ($385 million) is divided by the total number of residences in the province to determine a rate per residence ($379).
3. The other half of the total provincial amount to be raised is divided by the total assessed value of residential property in the province to determine a rate on assessed value ($2.5207 per $1,000 of assessed value).
4. The total school property tax requisition for a school district is calculated as the rate per residence times the number of residences **plus** the rate on assessed value times the total residential assessed value within the school district.
5. The school tax rate for each school district is calculated by dividing the total school property tax requisition by the total of assessed values.

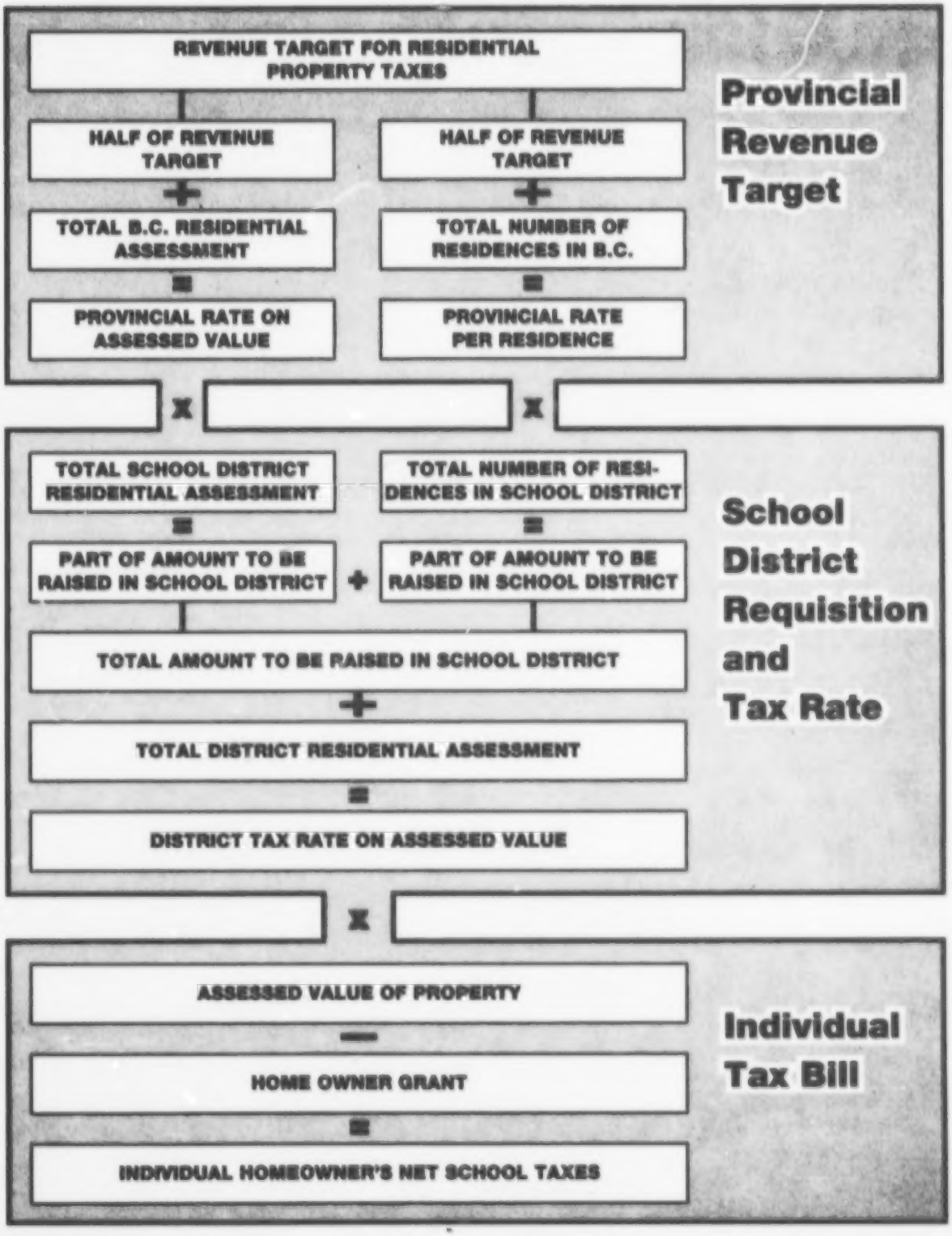
The accompanying diagram illustrates these calculations.

Using the Howe Sound School District (No. 48) as an example, here is how the new framework tax rate has been calculated for 1991.

- The district's share of school taxes based on the number of residences in the district is 10,482 residences times $379, or $3,972,678.
- Its share of school taxes based on total assessed values is $2.5207 times $1,673,690,681 of assessed value divided by 1,000, or $4,218,872.
- This gives a total Howe Sound School District school tax allocation of $8,191,550.
- Dividing $8,191,550 by the total residential assessment in the district of $1,673,690,681 gives a tax rate of $4.8943 per $1,000 of assessed value under the new framework.

In 1991, residential property owners in this district will pay a slightly higher rate because the new framework is being phased in over three years. Under the three-year phase-in, each district's 1991 tax rate has been calculated as one-third of the new framework rate plus two-thirds of a revenue neutral version of the 1990 tax rate. The revenue neutral version of the 1990 tax rate reflects assessment increases resulting from the introduction of the 1991 assessment roll and would raise no more revenues in 1991 from the district's 1990 tax base than were raised in 1990.

By moderating the effect of assessment differences on school district tax rates, and by excluding public school costs as a factor in determining these rates, the new framework conforms with the recommendations of the Royal Commission on Education, the Financing Local Government study, and the Union of British Columbia Municipalities. The new framework, and its phase in, was also developed with consideration given to the views expressed by persons making presentations to the Property Tax Forum panel during the late summer and fall of 1989.


REVENUE TARGET FOR RESIDENTIAL PROPERTY TAXES
HALF OF REVENUE TARGET
HALF OF REVENUE TARGET
+
+
TOTAL B.C. RESIDENTIAL ASSESSMENT
TOTAL NUMBER OF RESIDENCES IN B.C.
=
=
PROVINCIAL RATE ON ASSESSED VALUE
PROVINCIAL RATE PER RESIDENCE
Provincial Revenue Target
X
X
TOTAL SCHOOL DISTRICT RESIDENTIAL ASSESSMENT
TOTAL NUMBER OF RESIDENCES IN SCHOOL DISTRICT
=
=
PART OF AMOUNT TO BE RAISED IN SCHOOL DISTRICT
+
PART OF AMOUNT TO BE RAISED IN SCHOOL DISTRICT
TOTAL AMOUNT TO BE RAISED IN SCHOOL DISTRICT
+
TOTAL DISTRICT RESIDENTIAL ASSESSMENT
=
DISTRICT TAX RATE ON ASSESSED VALUE
School District Requisition and Tax Rate
X
ASSESSED VALUE OF PROPERTY
—
HOME OWNER GRANT
=
INDIVIDUAL HOMEOWNER'S NET SCHOOL TAXES
Individual Tax Bill

APPENDIX H

Supplementary Tables

Table H1
GENERAL ECONOMIC INDICATORS

	Unit or Base Period	1987	1988	1989	1990
Demographics:					
Population (June 1)	thousands	2,925	2,980	3,048	3,127
Public school enrolment (Sept. 30)	thousands	491	500	513	520
Labour force	thousands	1,482	1,514	1,578	1,601
Employment	thousands	1,306	1,358	1,435	1,469
Unemployment rate	per cent	11.9	10.3	9.1	8.3
Main Economic Indicators:					
Provincial gross domestic product	$ millions	62,866	69,291	76,332	81,085
Capital investment (new and repair)	$ millions	15,284	17,646	21,215	23,190
Retail sales	$ millions	19,357	21,023	23,036	24,473
New automobile sales	$ millions	1,491	1,648	1,760	1,714
Housing starts	dwelling units	28,944	30,487	38,894	36,720
Building permits	$ millions	2,906	4,150	5,216	4,976
Exports	$ millions	16,234	17,830	18,334	16,485
Incomes:					
Personal income	$ millions	52,626	57,808	64,423	69,963[1]
Wages and salaries	$ millions	29,714	32,637	36,799	39,920
Average weekly earnings	$	453.42	466.40	491.40	515.91
Prices:					
Consumer price index, B.C. (urban)	1986=100	103.0	106.7	111.5	117.6
Consumer price index, Vancouver	1986=100	103.1	106.8	111.5	117.6
Consumer price index, Victoria	1986=100	102.5	106.4	111.2	117.1
Industrial product price index, Canada	1986=100	102.8	107.2	109.4	109.7
B.C. export commodity price index[2]	1981=100	118.2	128.0	133.2	126.5
Financial Indicators:					
Business incorporations	number	18,691	18,703	21,817	19,550
Business bankruptcies	number	1,224	1,144	1,004	1,128
Shares traded (Vancouver Stock Exchange)	$ millions	6,650	3,258	3,822	4,062
Personal savings deposits at chartered banks	$ millions	18,599	20,821	25,230	29,340
Sector Indicators:					
Manufacturing shipments	$ millions	23,374	25,196	25,877	24,544
Timber scaled	thousand cubic metres	90,592	86,806	87,415	78,316
Lumber production	thousand cubic metres	37,336	36,736	35,952	33,515
Pulp and paper production	thousand tonnes	9,603	9,848	9,842	9,598
Gross value of mineral production	$ millions	3,500	3,960	3,945	3,963[3]
Petroleum and natural gas production	$ millions	732	735	783	914[3]
Electric power generation (net)	million kilowatt hours	63,066	60,943	57,655	60,662
Farm cash receipts	$ millions	1,083	1,137	1,169	1,186
Foreign visitors	thousands	4,762	4,878	4,910	5,130

[1] Ministry of Finance and Corporate Relations estimate.
[2] Developed by the Ministry of Finance and Corporate Relations.
[3] Ministry of Energy, Mines and Petroleum Resources estimate.

Table H2

COMPARATIVE PROVINCIAL TAX RATES, MAY 22, 1991

Tax	British Columbia	Alberta	Saskatchewan	Manitoba	Ontario	Quebec	New Brunswick	Nova Scotia	Prince Edward Island	Newfoundland
Provincial personal income tax[1] (per cent of family income)*	7.8	7.5	9.5	9.3	8.0	9.5[2]	9.0	9.0	8.9	9.5
Monthly Health Premiums ($/month)[3] Singles/Families	35/70	26/52	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Corporation income (per cent of taxable income)										
General rate/m&p**	15	15.5	15	17	15.5/14.5	6.33	17	16	15	17
Small business rate[4]	9	6	10	10	10	3.45	9	10	10	10
Corporation capital (per cent of taxable paid up capital)[5]										
Non-financial corporations	Nil	Nil	0.5	0.3	0.3	0.52	Nil	Nil	Nil	Nil
Trust companies	2.0	2.0	3.0	3.0	1.0	1.04	3.0	3.0	3.0	3.0
Banks	2.0	2.0	3.0	3.0	1.0	1.04	3.0	3.0	3.0	3.0
Payroll Tax (per cent of employer's payroll)[6]	N/A	N/A	N/A	2.25	1.95	3.45	N/A	N/A	N/A	1.50
Insurance premiums (per cent)[7]	3	3	3	3	3	3	3	3	3	4
Fuel taxes (cents per litre)[8]										
Gasoline	10.74	9.0	10.0	10.5	13.0	16.6	12.7	13.7	12.3	13.7
Diesel fuel	11.18	9.0	10.0	10.9	12.6	14.7	13.7	16.2	12.4	15.6
Retail sales[9]										
General rate (per cent)	6	Nil	7	7	8	8	11	10	10	12
Liquor (per cent)[10]	10	Nil	7	12	12	8	11	10	37.5	12
Meals (per cent)[11]	Nil	Nil	7	7	8	8	11	10	10	12
Accommodation (per cent)	8	5	7	7	5	Nil	11	10	10	12
Tobacco (cents per package of 25 cigarettes)[12]	200	175	202	212	206	184	297	221	225	235

*Calculated for a single wage earner with an income of $45,000 per year, a dependent spouse and two dependent children, using 1991 income tax rates in effect on May 22, 1991.

**Manufacturing and processing rate.

N/A—not applicable.

[1] All provinces except Quebec and Newfoundland impose surtaxes at varying rates on income tax above specified levels. British Columbia, Alberta, Saskatchewan, Manitoba, Ontario and Quebec provide tax reductions at low income levels. Alberta, Saskatchewan and Manitoba also levy flat rate surtaxes on net or taxable income.

[2] Quebec has its own personal income tax collection system. All other provinces collect personal income tax in conjunction with the Federal Government.

[3] July 1, 1991, rates. British Columbia also has a two-person family rate of $62 per month. Both British Columbia and Alberta provide premium assistance to low-income families.

[4] Some provinces have special provisions for newly incorporated small businesses.

[5] British Columbia levies its corporation capital tax only on financial institutions having capital greater than $500 million.

[6] Manitoba, Ontario and Newfoundland provide payroll tax relief for smaller employers.

[7] In some provinces, including British Columbia, different rates apply to life, sickness and accident insurance premiums. Most provinces, including British Columbia, levy an additional tax of one per cent on fire insurance premiums. British Columbia also levies an additional tax of one per cent on motor vehicle insurance. Newfoundland levies sales tax on insurance premium payments.

[8] Tax rates shown are for regular unleaded gasoline and diesel fuel used on highways. British Columbia, Nova Scotia and Prince Edward Island adjust tax rates periodically, depending on fuel price fluctuations.

[9] Saskatchewan, Quebec and Prince Edward Island have announced their intention to harmonize their sales taxes with the federal GST.

[10] Liquor served in commercial establishments is taxed at 10 per cent in Ontario. The Prince Edward Island rate includes a 25 per cent tax under the *Health Tax Act*. The Manitoba tax is seven per cent on beer.

[11] Several provinces have a basic exemption for low priced meals.

[12] Tax rates include estimates of provincial sales tax where applicable.

Table H3

COMPARISON OF PROVINCIAL TAXES AND DEFICIT OBLIGATIONS (EFFECTIVE MAY 22, 1991)

Tax	British Columbia	Alberta	Saskatchewan	Manitoba	Ontario	Quebec	New Brunswick	Nova Scotia	Prince Edward Island	Newfoundland
	(dollars)									
Single-Income Family of Four — $45,000										
1. Personal Income Tax	3,487	3,373	4,285	4,170	3,588	4,267	4,062	4,028	3,994	4,258
2. Health Care Premiums	840	624	—	—	—	—	—	—	—	—
3. Property Tax										
— Gross	1,580	1,600	1,850	2,450	2,300	2,000	1,092	1,650	1,408	1,070
— Net	970	1,600	1,850	2,125	2,300	2,000	1,076	1,650	1,408	1,070
4. Sales and Fuel Taxes	731	142	1,010	910	1,052	1,244	1,191	1,141	1,087	1,484
5. Total Tax (Including Net Property Tax)	6,028	5,739	7,145	7,205	6,940	7,511	6,328	6,819	6,489	6,812
6. 1991/92 Deficit (Surplus) per Family	490	(52)	1,050	1,175	3,867	2,030	1,707	2,021	275	2,047
7. Total Tax and Deficit Obligations	6,518	5,687	8,195	8,380	10,807	9,541	8,035	8,840	6,764	8,858
Unattached Individual (Renter) — $25,000										
1. Personal Income Tax	1,544	1,519	1,999	1,984	1,559	2,586	1,799	1,784	1,769	1,874
2. Health Care Premiums	420	312	—	—	—	—	—	—	—	—
3. Sales and Fuel Taxes	349	138	430	422	493	574	531	522	492	650
4. Total Tax	2,313	1,969	2,429	2,406	2,052	3,160	2,330	2,306	2,261	2,524
5. 1991/92 Deficit (Surplus) per Person	123	(13)	263	294	967	507	427	505	69	512
6. Total Tax and Deficit Obligations	2,436	1,956	2,692	2,699	3,019	3,667	2,756	2,811	2,329	3,035
Senior Couple with Equal Pension Incomes — $30,000										
1. Personal Income Tax	755	350	1,033	538	777	890	880	873	865	949
2. Health Care Premiums	744	—	—	—	—	—	—	—	—	—
3. Property Tax										
— Gross	1,580	1,600	1,850	2,450	2,300	2,000	1,092	1,650	1,408	1,070
— Net	836	600	1,850	2,025	1,700	2,000	876	1,650	1,408	1,070
4. Sales and Fuel Taxes	940	150	1,271	1,204	1,378	1,544	1,527	1,462	1,394	1,969
5. Total Tax (Including Net Property Tax)	3,274	1,100	4,154	3,767	3,855	4,434	3,282	3,985	3,667	3,988
6. 1991/92 Deficit (Surplus) per Family	245	(26)	525	588	1,934	1,015	853	1,011	138	1,023
7. Total Tax and Deficit Obligations	3,519	1,074	4,679	4,354	5,789	5,449	4,136	4,995	3,804	5,011

NOTES TO TABLE

Personal Income Tax

- Only basic tax credits are claimed.

Property Tax

- The family and senior couple are assumed to be homeowners. The single is assumed to be a renter.
- Gross property tax figures are taken from the Royal LePage Spring 1991 Survey of house prices. Estimates are for a standard bungalow in each province's major city.
- Net property tax is equal to gross taxes less any credit provided through the property tax system. (Credits provided through the income tax system are accounted for in that calculation.)

Health Care Premiums

- For British Columbia, based on the increased rates announced in the budget. For Alberta, based on the increased rates which take effect on July 1, 1991.
- Seniors in Alberta do not pay premiums.

Sales and Fuel Tax Estimates

- The sales tax is calculated from consumption patterns estimated from Statistics Canada's 1986 Survey of Family Expenditures adjusted to reflect housing costs of $1,000 in monthly mortgage for the family and $600 in monthly rent for the single. The senior couple is assumed to own their house outright.
- Fuel tax estimates are based on annual consumption of 1,500 litres of unleaded fuel.

Deficit Obligations

- Assumes equal per capita distribution of 1991/92 provincial deficit times the number of family members.

Table H4

THE FINANCING PLAN
GENERAL FUND AND SPECIAL FUNDS

	Actual 1987/88	Actual 1988/89	Actual 1989/90	Revised Forecast 1990/91	Estimate 1991/92
	($ millions)				
Financial Requirements:					
General Fund Deficit (Surplus)	790.9	321.1	(136.6)	(15.0)	395.0
Budget Stabilization Fund Decrease (Increase)[1]	(742.9)	(748.2)	(108.8)	760.9	839.0
Privatization Benefits Fund Decrease (Increase)	—	(308.5)	(112.4)	(56.6)	(41.5)
Net Disbursements (Receipts) from Financing and Working Capital Transactions	160.3	76.4	(75.1)	58.5	149.5
Total Financial Requirements	208.3	(659.2)	(432.9)	747.8	1,342.0
Financial Sources:					
Net Direct Borrowing (Repayment) for Government Purposes	214.8	(97.5)	(710.6)	517.4	1,262.0
Decrease (Increase) in Cash and Temporary Investments	(6.5)	(561.7)	277.7	230.4	80.0
Total Financial Sources	208.3	(659.2)	(432.9)	747.8	1,342.0
Net Debt at Year End:[2]					
Government Direct	5,016.7	4,919.2	4,208.6	4,726.0	5,968.0
Crown Corporation and Agencies	11,768.2	11,155.0	11,322.8	11,782.5	13,158.6
Other Debt and Guarantees	181.1	336.0	678.3[3]	781.9	836.4
Total Net Debt at Year End	16,966.0	16,410.2	16,209.7	17,290.4	19,963.0

[1] The Budget Stabilization Fund was dissolved on April 1, 1991.
[2] Net of sinking funds and unamortized discount balances.
[3] Restated to include British Columbia Second Mortgage Program guarantees and loan guarantee provisions.

Table H5
REVENUE BY SOURCE

	Actual 1987/88	Actual 1988/89	Actual 1989/90	Revised Forecast 1990/91	Estimate 1991/92	Annual Rate of Growth 1987/88 to 1991/92
			($ millions)			(per cent)
Taxation Revenue:						
Personal income	2,790.0	2,995.3	3,451.6	4,141.0	4,347.0	11.7
Corporation income	473.4	600.3	666.3	608.0	674.0	9.2
Social service	1,463.1	1,716.7	1,985.7	2,000.0	2,055.0	8.9
Fuel	449.5	468.9	500.0	555.0	542.0	4.8
Tobacco	227.8	259.2	314.9	355.0	460.0	19.2
Property — residential (school purpose)[1]	—	—	—	297.0	307.0	—
Property — business (school purpose)[2]	449.3	491.0	524.8	547.0	569.0	6.1
Property — rural area	42.7	44.7	50.8	49.0	50.0	4.0
Property purchase	140.1	248.5	317.4	215.0	240.0	14.4
Corporation capital	56.8	13.6	4.3	11.0	10.0	(35.2)
Insurance premium	54.2	82.3	95.0	106.0	113.0	20.2
Hotel room	40.0	45.4	53.3	58.0	62.0	11.6
Horse racing	6.7	5.7	6.1	6.0	6.0	(2.7)
Succession and gift	—	—	0.1	—	—	—
Valuation allowance	6.2	1.7	(1.7)	—	—	—
Total taxation revenue	6,199.8	6,973.3	7,968.6	8,948.0	9,435.0	11.1
Natural Resource Revenue:						
Petroleum and natural gas:						
Natural gas royalties	53.7	55.7	62.8	73.0	80.0	10.5
Permits and fees	92.6	146.1	121.6	158.0	118.0	6.2
Petroleum royalties	51.8	38.4	42.8	48.0	50.0	(0.9)
	198.1	240.2	227.2	279.0	248.0	5.8
Minerals	53.6	74.7	73.5	47.0	70.0	6.9
Forests:						
Timber sales	350.5	413.5	451.9	416.0	452.0	6.6
Small Business Forest Enterprise Program	47.2	134.4	147.3	123.0	136.2	30.3
Lumber Export Tax	279.0	5.8	—	—	—	—
Logging Tax	31.5	50.0	45.7	27.0	7.0	(31.3)
Other forests revenue	36.4	74.6	52.4	46.0	46.8	6.5
	744.6	678.3	697.3	612.0	642.0	(3.6)
Water resources	215.0	255.5	236.1	222.0	246.0	3.4
Wildlife Act	11.7	12.6	13.8	15.0	16.0	8.1
Valuation allowance	—	9.8	1.6	—	—	—
	226.7	277.9	251.5	237.0	262.0	3.7
Total natural resource revenue	1,223.0	1,271.1	1,249.5	1,175.0	1,222.0	—

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Table H5

REVENUE BY SOURCE — *Continued*

	Actual 1987/88	Actual 1988/89	Actual 1989/90	Revised Forecast 1990/91	Estimate 1991/92	Annual Rate of Growth 1987/88 to 1991/92
	($ millions)					(per cent)
Other Revenue:						
Medical Services Plan premiums[2]	421.1	580.8	641.0	660.0	733.0	14.9
Lottery Fund revenue[3]	161.2	181.0	195.8	205.0	202.5	5.9
Motor vehicle licences and permits	136.8	192.7	182.8	202.0	222.0	12.9
Other fees and licences[4]	180.5	230.5	267.5	269.0	303.5	13.9
Investment earnings	68.4	133.7	168.0	102.0	98.0	9.4
Miscellaneous	90.1	97.3	140.8	131.2	165.0	16.3
Valuation allowance	1.8	4.2	2.7	0.8	5.0	29.1
Total other revenue	1,059.9	1,420.2	1,598.6	1,570.0	1,729.0	13.0
Contributions from Government Enterprises:						
Liquor Distribution Branch	425.0	424.7	419.6	440.0	452.0	1.6
British Columbia Hydro and Power Authority	—	—	101.2	113.0	145.0	—
Other	44.8	22.7	11.7	68.0	43.0	(1.0)
Total contributions from government enterprises	469.8	447.4	532.5	621.0	640.0	8.0
Contributions from the Federal Government:						
Established Programs Financing	1,215.3	1,230.2	1,239.8	1,110.0	1,187.0	(0.6)
Canada Assistance Plan	631.0	667.8	686.5	764.0	908.0	9.5
Other[5]	207.8	251.2	221.6	194.0	190.0	(2.2)
Total contributions from the federal government	2,054.1	2,149.2	2,147.9	2,068.0	2,285.0	2.7
Total Revenue	11,006.6	12,261.2	13,497.1	14,382.0	15,311.0	8.6
Transfer (to) from Budget Stabilization Fund	(717.4)	(591.9)	52.2	926.0[6]	839.0	—
TOTAL GENERAL FUND REVENUE	10,289.2	11,669.3	13,549.3	15,308.0	16,150.0	11.9

[1] Prior to 1990/91, residential (school purpose) property tax was collected by municipalities on behalf of school districts. Revenue shown is net of Home Owner Grants (basic and supplementary).

[2] For comparative purposes, revenue for 1987/88 has been restated to include business (school purpose) property tax and Medical Services Plan premiums which are included in General Fund revenue beginning in 1988/89. Previously, this revenue was netted against expenditure.

[3] Excludes public gaming licence fees which are included in other fees and licences.

[4] For comparative purposes, revenue for 1989/90 and earlier has been restated to include recoveries by the Securities Commission and Provincial Treasury Special Accounts which are included in General Fund revenue beginning in 1990/91. Previously, this revenue was netted against expenditure.

[5] For comparative purposes, revenue for 1990/91 and earlier has been restated to include federal contributions for education of Native children and children of Department of National Defence psrsonnel, which are included in General Fund revenue beginning in 1991/92. Previously, this revenue was netted against expenditure.

[6] Includes an additional transfer of $242 million from the Budget Stabilization Fund to increase General Fund revenue to the 1990/91 budgeted level.

Table H6
EXPENDITURE BY FUNCTION[1]

	Actual 1987/88	Actual 1988/89	Actual 1989/90	Revised Forecast 1990/91	Estimate 1991/92	Annual Rate of Growth 1987/88 to 1991/92
			($ millions)			(per cent)
Health	3,684.1	4,012.2	4,499.5	5,046.5	5,486.2	10.5
Social services	1,348.8	1,442.6	1,504.2	1,682.2	1,907.7	9.1
Education	2,662.4	2,919.7	3,228.2	4,129.4[2]	4,481.9	13.9
Protection of persons and property	505.3	552.6	625.3	714.8	723.9	9.4
Transportation	927.7	844.3	1,198.9	1,189.4	1,270.9	8.2
Natural resources and economic development	739.1	897.5	1,011.6	1,114.5	1,159.7	11.9
Other	406.1	414.9	447.7	489.0	665.2	13.1
General government	255.8	220.4	226.1	230.4	234.3	(2.2)
Debt servicing	525.3	529.9	510.2	531.7	615.2	4.0
Interest paid to Budget Stabilization Fund[3]	—	77.3	161.0	165.1	—	—
Transfer to Budget Stabilization Fund	25.5	79.0	—	—	—	—
TOTAL GENERAL FUND EXPENDITURE	11,080.1	11,990.4	13,412.7	15,293.0	16,545.0	10.5

[1] Expenditure by function has been restated to conform to the *1991/92 Estimates* and to conform more closely to the presentation used by Statistics Canada.

[2] Beginning in 1990/91, the provincial government assumed full responsibility for contributions to school districts funded through residential school property taxes. As a result, residential school property taxes are collected by the government rather than by local school districts and some expenditures formerly financed by local school districts are included as expenditures of the government.

[3] The Budget Stabilization Fund was dissolved on April 1, 1991.

Table H7

NET DEBT SUMMARY[1]

As at March 31,	Actual 1988	Actual 1989	Actual 1990	Revised Forecast 1991	Estimate 1992
	($ millions)				
Purposes:					
Provincial Government Direct	5,016.7	4,919.2	4,208.6	4,726.0	5,988.0
Commercial Crown Corporations and Agencies:					
British Columbia Enterprise Corporation	167.2	38.6	—	—	—
British Columbia Hydro and Power Authority	7,683.3	7,060.3	7,076.3	7,207.3	7,534.3
British Columbia Railway Company	298.3	297.5	258.3	277.7	229.5
	8,148.8	7,396.4	7,334.6	7,485.0	7,763.8
Economic Development Crown Corporations and Agencies:					
British Columbia Ferry Corporation	77.6	75.2	67.6	59.9	241.7
British Columbia Transit	1,105.3	1,137.4	1,176.8	1,230.0	1,350.7
Other	9.8	0.9	0.7	0.7	14.2
	1,192.7	1,213.5	1,245.1	1,290.6	1,606.6
Social and Government Services Crown Corporations and Agencies:					
British Columbia Assessment Authority	4.3	4.8	4.3	6.4	6.7
British Columbia Buildings Corporation	390.1	423.7	504.2	514.3	559.6
British Columbia Educational Institutions Capital Financing Authority	362.0	376.9	425.2	480.3	689.9
British Columbia Regional Hospital Districts Financing Authority	716.1	763.0	788.7	912.9	1,084.6
British Columbia School Districts Capital Financing Authority	825.9	808.7	794.2	899.3	1,244.8
Capital Project Certificate of Approval Program[2]	90.0	136.6	196.2	164.9	164.9
British Columbia Systems Corporation	46.5	40.0	36.2	34.1	42.5
Other	—	—	55.2	—	—
	2,434.9	2,553.7	2,804.2	3,012.2	3,793.0
Less Amounts Held as Investments/Cash Held for Relending by General Fund	8.2	8.6	61.1	5.3	4.8
Government, Crown Corporation and Agencies Debt Total	16,784.9	16,074.2	15,531.4	16,508.5	19,146.6
Other Debt and Guarantees	181.1	336.0	678.3[3]	781.9	836.4
Total Direct and Guaranteed Debt	**16,966.0**	**16,410.2**	**16,209.7**	**17,290.4**	**19,983.0**

[1] Net debt is after deduction of sinking funds and excludes accrued interest. Government direct and fiscal agency accrued interest is reported in the government's accounts as an accounts payable.
[2] Short-term borrowings obtained by financing authorities under the Certificate of Approval Program are used for interim financing of capital construction and are eventually converted to long-term debt.
[3] Restated to include British Columbia Second Mortgage Program guarantees and loan guarantee provisions.